



COLORADO
Department of Personnel
& Administration

1525 Sherman St.
Denver, CO 80203

June 16, 2014

Dianne E. Ray, CPA, State Auditor
Colorado Office of the State Auditor
1525 Sherman Street, 7th floor
Denver, CO 80203

Dear Ms. Ray:

In response to your request, we have prepared an updated status report regarding the implementation of recommendations contained in the Evaluation of the Department of Personnel & Administration's Annual Compensation Survey for Fiscal Year 2014, Audit #2199. The attached report provides a brief explanation of the actions taken by the Department of Personnel & Administration to implement each recommendation. Kim Burgess, Chief Human Resource Officer will present to the Legislative Audit Committee.

If you have any questions, please do not hesitate to contact me at (303) 866-6559 or by email at kathy.nesbitt@state.co.us

Sincerely,

A handwritten signature in black ink, appearing to read 'Kathy Nesbitt', written over a light blue horizontal line.

Kathy Nesbitt
Executive Director



AUDIT RECOMMENDATION STATUS REPORT

AUDIT NAME: Evaluation of the Department of Personnel & Administration’s Annual Compensation Survey for Fiscal Year 2014

AUDIT NUMBER: #2199

DEPARTMENT/AGENCY/ENTITY: Department of Personnel & Administration

DATE: June 2014

SUMMARY INFORMATION

Recommendation Number	Agency’s Response	Original Implementation Date <i>(as listed in the audit report)</i>	Implementation Status	Revised Implementation Date
1	Partially Agree	August 2013	Implemented	February 2014
2a	Agree	August 2013	Partially Implemented	Medical, Dental, Leave and other benefits implemented August 2013. Retirement, (PERA) January 15, 2015.
2b	Agree	August 2013	Partially Implemented	Medical, Dental, Leave and other benefits implemented August 2013. Retirement, (PERA) January 15, 2015.
2c	Agree	August 2014	Not Implemented	January 2015
3	Agree	August 2013	Implemented	
4	Agree	August 2013	Implemented	
5	Agree	August 2013	Implemented	
6	Agree	August 2013	Implemented	
7	Agree	August 2014	Partially Implemented	August 2015
8	Agree	August 2013	Implemented	June 2014

9	Agree	August 2014	Not Implemented	August 2016
10	Agree	August 2014	Not Implemented	August 2016
11	Agree	August 2014	Implemented	February 2014

DETAIL OF IMPLEMENTATION STATUS

Recommendation No. 1:

The Department of Personnel & Administration should change its calculation method for comparing state salaries to the market by using the average state salary and the median market salary as the point of comparison for each benchmark job classification.

Agency’s Written Response in Audit Report:

Partially Agree. Implementation Date: August 2013

The Department of Personnel & Administration will consider comparing average state salaries to median market salaries for benchmark job classifications for future compensation surveys. As recognized by the audit, the Department has modified its survey methodology in recent years in order to improve the quality and accuracy of the survey findings. One of the methodology changes has been to evaluate changes to the comparative calculation. As such, the Department has reported both the comparison of average state salaries to weighted average salaries in the market and average state salaries to median salaries in the market in the past few years. In 2012, the Department obtained the services of an independent consulting firm to analyze our survey methodology practices. Based upon the input of this firm, the Department refined the methodology to compare median state salaries to median market salaries. The Department will seek additional clarification from an independent consulting firm in order to determine market practices and the best calculation method for comparing state salaries to the market.

Current Implementation Status of Recommendation (i.e., Implemented, Implemented and Ongoing, Partially Implemented, Not Implemented, or No Longer Applicable):

Implemented: February 2014

Agency’s Current Comments on Implementation Status of Recommendation:

The State originally responded with a partial agreement due to differing opinions from the State Auditor’s consultant and DHR’s internal HR advisory consultant regarding comparing state averages to market median salaries. At the time the audit was published, the Department was too close to publishing the FY 2014-15 Annual Compensation Report to implement any changes. In early 2014, to initiate the annual compensation survey process for FY 2015-16, DHR contacted an independent consultant to determine market practices and the best calculation methods for comparing state salaries to the market.

Recommendation No. 2:

The Department should improve how its annual total compensation survey process evaluates non-salary compensation by:

- a. Ensuring that all non-salary elements of total compensation, such as contributions by the State and employees for medical benefits, dental benefits, other benefits, retirement benefits, and leave benefits are included in the annual compensation survey.
- b. Collecting necessary data for those elements identified in part “a.”
- c. Accounting for differences in the State’s and state employees’ contributions to benefits when making recommendations for increases in state employee salaries and to contributions to group benefit plans, if any.

Agency’s Written Response in Audit Report:

- a. Agree. Implementation Date: August 2013

As indicated in the August 2012 annual compensation recommendation letter, the Department of Personnel & Administration has historically focused on the statutorily required elements of employee salaries and state contributions for group benefit plans for the survey. Although the Department annually monitors market practices of other elements of total compensation, such as leave, retirement benefits, and premium pay practices, these elements have only been reported when significant deviation from market findings exists or when special topics or areas of interest are identified. However, the Department recognizes the value of providing an overall measure of total compensation or remuneration in order to assess the overall competitiveness of the State total compensation package.

As such, the Department includes a comparison of the State’s contribution toward retirement benefits to the employer contribution to retirement in the market, the coverage of short-term and long-term disability benefits, and coverage of life insurance and accidental death and dismemberment for FY 2013-14. The Department will include non-salary elements of total compensation in the annual compensation survey.

- b. Agree. Implementation Date: August 2013

The Department will collect market survey data on all elements of total compensation to compare to the State’s practices.

- c. Agree. Implementation Date: August 2014

The Department will continue to work toward implementing a comprehensive measure of total compensation in future years, including recommending appropriate adjustments in state employee salaries and to contributions to group benefit plans, if any, that take into account differences in the State's and state employees' contributions to benefits compared to the market.

Current Implementation Status of Recommendation (i.e., Implemented, Implemented and Ongoing, Partially Implemented, Not Implemented, or No Longer Applicable):

- a. Partially Implemented. Retirement analysis (PERA) to be included in the FY 15/16 Total Compensation Report as an addendum by January 15, 2015.
- b. Partially Implemented. Market comparisons to optional benefits will be included in the Annual Compensation Report published on August 1, 2014, the retirement analysis (PERA) to be included in the FY 15/16 Total Compensation Report as an addendum by January 15, 2015.
- c. Not Implemented: January, 2015. An updated comparison will be provided in the addendum on January 15, 2015 to reflect any changes to the employer contribution to PERA benefits. There are no current changes recommended for the State retirement benefit due to Senate Bill 14-214 which requires the State Personnel Director to contract with a third-party compensation consulting firm to perform a total compensation study.

Agency's Comments on Implementation Status of Recommendation:

- a. In the FY 2014-15 Annual Compensation Report the Department included survey findings on medical, dental, life insurance, short and long-term disability, leave including vacation, sick, holiday, bereavement, jury, Family Medical and Military Leave). This is a practice that will continue in future reports. In the FY 2015-16 Annual Compensation Report, the Department included additional comparisons to optional benefits. The department will submit an addendum by January 15, 2015 to the August 1, 2014 Annual Compensation Report with the outcome of a study as required by Senate bill 14-214 which, requires the State Personnel Director to contract with a third party compensation consulting firm to perform a total compensation study that includes the retirement benefits provided by the state through PERA
- b. All components have been implemented except the PERA component. The value of the state's retirement program is addressed in comment a.
- c. The department included a comparison of the State and employee benefit contributions to market in the August 2014 total compensation report.

Recommendation No. 3:

The Department of Personnel & Administration should change its market aging calculation to age all market salary survey data to a common historical date that is consistent with state salary data.

Agency’s Written Response in Audit Report:

Agree. Implementation Date: August 2013

The Department of Personnel & Administration will adjust the market aging calculation to a common date to correspond with the state salary data.

Current Implementation Status of Recommendation (i.e., Implemented, Implemented and Ongoing, Partially Implemented, Not Implemented, or No Longer Applicable):

Implemented: August 2013

Agency’s Comments on Implementation Status of Recommendation:

The Department changed its aging methodology in 2014 for the FY15/16 Annual Compensation study. The market data and the state’s employee data are aged to a common date of July 1 of the year of implementation.

Recommendation No. 4:

The Department of Personnel & Administration should use the WorldatWork Salary Budget Increase survey results to determine appropriate projection assumptions for movement in market salaries based on planned state salary structure changes for the upcoming fiscal year.

Agency’s Written Response in Audit Report:

Agree. Implementation Date: August 2013.

The Department of Personnel & Administration will use the WorldatWork Salary Budget Increase survey data to determine appropriate projections for movement in market salaries.

Current Implementation Status of Recommendation (i.e., Implemented, Implemented and Ongoing, Partially Implemented, Not Implemented, or No Longer Applicable):

Implemented: August 2013.

Agency’s Comments on Implementation Status of Recommendation:

The Department is using the WorldatWork Salary Budget Increase data for determining merit adjustment recommendations; however additional survey sources that report projected and historical actual pay increases were added in 2014 for FY15/16. Data from Mountain States Employers Council for local and national data, the Bureau of Labor Statistics, and the Employment Cost Index were incorporated to develop a trend analysis. The additional data delivers a comprehensive analysis rather than relying on a single data point

Recommendation No. 5:

The Department of Personnel & Administration should correct the mathematical errors in its survey normalization calculations for other states' salaries.

Agency's Written Response in Audit Report:

Agree. Implementation Date: August 2013

The Department of Personnel & Administration has already adjusted the calculation methodology for survey normalization for other states' salaries. This corrected calculation will be used for the upcoming survey cycle.

Current Implementation Status of Recommendation (i.e., Implemented, Implemented and Ongoing, Partially Implemented, Not Implemented, or No Longer Applicable):

Implemented: August 2013

Agency's Comments on Implementation Status of Recommendation:

As part of the FY 2014-15 Annual Report the Department contracted with an external HR Consultant Company. When conducting their analysis, they corrected the error and normalized other state data by utilizing ERI's Geographic Assessor.

Recommendation No. 6:

The Department of Personnel & Administration should change its methodology for calculating the budget cost estimate of bringing state salaries up to prevailing market wages to account for employee position within his/her salary range and performance and for those individual job classifications that are already competitive with the market.

Agency's Written Response in Audit Report:

Agree. Implementation Date: August 2013

The Department of Personnel & Administration will continue to report the budget cost estimate of reaching prevailing market wages based upon a position by position analysis including employee range placement and performance.

Current Implementation Status of Recommendation (i.e., Implemented, Implemented and Ongoing, Partially Implemented, Not Implemented, or No Longer Applicable):

Implemented: August 2013

Agency's Comments on Implementation Status of Recommendation:

The Department of Personnel & Administration uses various metrics to gauge the cost of adjusting its workforce's salaries to achieve the intended benchmark. This comprehensive analysis incorporates the factors recommended by the OSA's contractor. In some instances, the Department provides an estimate of the total dollar increase necessary to achieve parity with market with one "across the board" adjustment, as noted by the auditor. The Department understands that this, and any methodology, requires certain assumptions that may or may not be deemed valid by an entity reviewing the calculation. Therefore, the Department will be using both calculations to maintain comparability over the course of time. Both calculations are used to provide a perspective on the state's salary and position competitiveness relative to market when determining budget cost estimates. In addition to the above analysis individual salary adjustments estimates are calculated based on employee performance, and employee position within the range. The weighted average percent calculation is used to determine the average percent that would need to be applied to each job class to obtain parity with the market. Results of the FY15/16 analysis will be reported in the FY15/16 Total Compensation Report.

Recommendation No. 7:

The Department of Personnel & Administration should expand its current portfolio of survey sources to achieve a target of three independent survey source comparisons for each benchmark job in the annual compensation survey.

Agency's Written Response in Audit Report:

Agree. Implementation Date: August 2014

The Department of Personnel & Administration will utilize additional survey sources to achieve three independent survey source comparisons whenever possible. The Department will attempt to include additional survey sources for the Fiscal Year 2014-15 survey cycle. However, given the timing and budgetary constraints, additional surveys to reach the target of three sources for each benchmark may not be possible until the Fiscal Year 2015-16 survey cycle.

Current Implementation Status of Recommendation (i.e., Implemented, Implemented and Ongoing, Partially Implemented, Not Implemented, or No Longer Applicable):

Partially Implemented: August 2015

Agency's Comments on Implementation Status of Recommendation:

For the FY 2014-15 Annual Report, the Department utilized three salary survey data sources. The surveys included several surveys from Mountain States Employers Council (Colorado, Public, IT, Mental Health), NCASG, and Towers Perrin. The Department received the Towers Perrin data from our HR Consultant and will be using this data as part of the analysis for the FY 2015-16 Annual Report. The Department is also purchasing the Colorado Municipal League survey for use in FY 2015-16. The Department will be participating in the Mercer survey this next calendar year and is making efforts to purchase this survey for the FY 2016-17 Annual Report.

Recommendation No. 8:

The Department of Personnel & Administration should modify its external market analysis process for assessing the State's competitive position against the private and public market sectors by establishing a specific weighting policy and mechanism for combining survey market results for both sectors.

Agency's Written Response in Audit Report:

Agree. Implementation Date: August 2013

The Department of Personnel & Administration will incorporate a weighting policy and mechanism for combining survey market results from both the private and public sectors into the survey methodology.

Current Implementation Status of Recommendation (i.e., Implemented, Implemented and Ongoing, Partially Implemented, Not Implemented, or No Longer Applicable):

Implemented: June 2014

Agency’s Comments on Implementation Status of Recommendation:

Due to the time constraints in publishing the FY 2014-15 Survey it was not possible to establish a weighting methodology for that report. The Department implemented weighting factors in 2014 for the FY15-16 report. The public and private sector data was weighted at 100% as the State competes for talent from both sectors. The local (Colorado) and national data were weighted at 80% and 20% respectively based on the State’s residency requirement that requires applicants to be a resident of the state of Colorado at the time of application. The FY15-16 Total Compensation Report, to be issued on August 1, 2014, will reflect these process changes.

Recommendation No. 9:

The Department of Personnel & Administration should refine its use of generic classifications for General Professional and IT Professional to improve the precision of market comparisons between specific jobs within these classifications and the different survey market jobs to which they are matched.

Agency’s Written Response in Audit Report:

Agree. Implementation Date: August 2014

The Department of Personnel & Administration will evaluate the General Professional and IT Professional job classifications to determine if the specific jobs within these classifications should be separated out into individual job classifications to provide additional precision for job matching.

Current Implementation Status of Recommendation (i.e., Implemented, Implemented and Ongoing, Partially Implemented, Not Implemented, or No Longer Applicable):

Not Implemented: August 2016

Agency’s Comments on Implementation Status of Recommendation:

The Department began a System Maintenance Study in January 2014 to deconsolidate the General Professional class series to establish jobs that can be accurately matched with market jobs to ensure generally prevailing compensation. There are approximately 3,200 State employees classified in the General Professional classification series. Based on the size and magnitude of the study, it is anticipated that the results and findings will be provided in the August 1, 2015 Annual Compensation Report for implementation July 1, 2016. The study for the IT class series will begin after the General Professional study is completed.

Recommendation No. 10:

The Department of Personnel & Administration should expand its market assessment process to include variable pay in its analysis of total cash compensation.

Agency's Written Response in Audit Report:

Agree. Implementation Date: August 2014

The Department of Personnel & Administration will include an assessment of variable pay practices within the market to augment the cash compensation analysis currently included in the annual compensation survey.

Current Implementation Status of Recommendation (i.e., Implemented, Implemented and Ongoing, Partially Implemented, Not Implemented, or No Longer Applicable):

Not Implemented: August 2016

Agency's Comments on Implementation Status of Recommendation:

The Department will be contracting with a compensation consultant to perform a total comp assessment for FY16-17 and variable pay will be included in the assessment.

Recommendation No. 11:

The Department of Personnel & Administration should improve the thoroughness of its annual compensation survey process by taking steps to allow more time for data analysis, such as aging prior year's data and/or performing market assessments for more stable job classifications on a less than annual basis.

Agency's Written Response in Audit Report:

Agree. Implementation Date: August 2014

The Department of Personnel & Administration will use appropriate aging factors to age prior year's data and, where possible, use the most current survey reports, given the timing of release, so that analysis can begin earlier in order to meet the August 1st deadline for submission.

Current Implementation Status of Recommendation (i.e., Implemented, Implemented and Ongoing, Partially Implemented, Not Implemented, or No Longer Applicable):

Implemented: February 2014

Agency's Comments on Implementation Status of Recommendation:

The Department began the 2014 analysis for the FY15/16 Annual Compensation report mid February to improve the thoroughness of the annual compensation survey process, which allowed more time to conduct a thorough data analysis. The FY15-16 Total Compensation Report, to be issued on August 1, 2014, will reflect these process changes.