



October 17, 2022

Evaluation of the Colorado Department of Personnel & Administration's Annual Compensation Survey – Status Report

Members of the Legislative Audit Committee:

Attached is the status report from the Department of Personnel & Administration (Department) on the implementation of recommendations contained in the Office of the State Auditor's (OSA) June 2021 *Evaluation of the Colorado Department of Personnel & Administration's Annual Compensation Survey*.

OSA Review of Documentation

As part of the status report process, we requested and received supporting documentation for each recommendation that the Department reported as having been implemented. Specifically, we reviewed the following documentation:

- Fiscal Year 2022-23 Annual Compensation Report. This report was issued in September 2021 and describes the related methodologies and results for the full-year compensation study conducted by the Department's new vendor (Mercer) subsequent to the OSA's June 2021 evaluation.
- Department memo dated December 30, 2021 to the Chair of the Joint Budget Committee and the Chair of the Legislative Audit Committee on any recommended changes (including any necessary statutory changes) to the full-year—maintenance-year approach to the annual compensation study.
- House Bill 22-1337 sponsored by the Joint Budget Committee and signed by the Governor on April 25, 2022.

Based on our review, the supporting documentation substantiates the Department's reported implementation status.



COLORADO
Department of Personnel
& Administration

October 17, 2022

Kerri L. Hunter, CPA
State Auditor
Colorado Office of the State Auditor
1525 Sherman St., 7th Floor
Denver, CO 80203

Dear Auditor Hunter:

In response to your request, we have prepared the attached status report on the implementation status of recommendations contained in the June 2021 *Evaluation of the Colorado Department of Personnel & Administration's Annual Compensation Survey*. The report provides a brief explanation of the actions taken by the Department of Personnel & Administration (Department) to implement each recommendation.

Out of nine recommendations, the Department has implemented or partially implemented eight recommendations; one recommendation remains not implemented. All recommendations will be fully implemented by the Department's original September 2023 implementation date.

If you have any questions about this status report and the Department's efforts to implement the recommendations, please contact Brandy Malatesta at 303.919.0507 or brandy.malatesta@state.co.us

Sincerely,

A handwritten signature in black ink, appearing to read 'Tony Gherardini'.

Tony Gherardini
Executive Director
Colorado Department of Personnel & Administration



Audit Recommendation Status Report

Audit Name:	Evaluation of the Colorado Department of Personnel & Administration's Annual Compensation Survey
Audit Number:	2055P
Agency:	Department of Personnel & Administration
Date of Status Report:	October 2022

Section I: Summary				
Rec. Number	Response from Audit Report	Original Implementation Date	Current Implementation Status	Current Implementation Date
1a	Agree	September 2023	Partially Implemented	September 2023
1b	Agree	September 2021	Implemented	September 2021
1c	Agree	September 2023	Not Implemented	September 2023
1d	Agree	September 2021	Implemented	September 2021
1e	Agree	September 2021	Implemented	September 2021
1f	Agree	September 2023	Partially Implemented	September 2023
1g	Agree	September 2023	Implemented	September 2021
1h	Agree	September 2023	Implemented	September 2021
2	Agree	December 2021	Implemented	December 2021

Section II: Narrative Detail

Recommendation 1a

The Department of Personnel & Administration (Department) should continue to strengthen its annual compensation study process and ensure the validity and reliability of the underlying data being used to assess the prevailing labor market by:

- a. Assessing and reporting on the impact of data differences between the full year and maintenance year studies on year-to-year changes in the State's market position.

Current Implementation Status	Partially Implemented
Current Implementation Date	September 2023
Status Update Narrative	The Department switched to a new vendor for the FY 2022-23 full report. As part of the work with the new vendor, benchmarks were selected and verified, new surveys were introduced, and new matches and data sets were used. The original custom survey, which was one cause for differences between the full year and maintenance year, is no longer being used. Instead, the Department has selected survey data with a 50/50 blend of public and private sector employers where possible. Moving forward to full implementation, the Department will review the data differences between the full year (FY 2022-23) and maintenance year (FY 2023-24) and make note of significant differences from year-to-year. Upon completion of the FY 2023-24 maintenance year report in October 2022, the Department will provide comparisons as requested. This year-to-year review will include looking at changes in benchmark survey matches, data cut changes, swings in market data, etc.

Recommendation 1b

The Department of Personnel & Administration (Department) should continue to strengthen its annual compensation study process and ensure the validity and reliability of the underlying data being used to assess the prevailing labor market by:

- b. Using at least three market data sources for each benchmark job. If this cannot occur, the Department should reassess whether the job is appropriate for continued use as a benchmark.

Current Implementation Status	Implemented
Current Implementation Date	September 2021
Status Update Narrative	The Department worked with its new vendor to provide access to additional survey resources to capture at least three market sources for each benchmark job. The full suite of Mercer surveys were accessed as well as the Bureau of Labor Statistics. If this was not possible, the Department worked with the vendor to assess the validity and applicability of sources to see if they were appropriate for continued use as benchmarks. The vendor determined that all jobs were appropriate for continued use as benchmarks and all were retained.

Recommendation 1c

The Department of Personnel & Administration (Department) should continue to strengthen its annual compensation study process and ensure the validity and reliability of the underlying data being used to assess the prevailing labor market by:

- c. Reviewing benchmark jobs with median market base salaries that vary by 10 percent or more between full and maintenance year compensation studies to identify and correct any underlying data issues before relying on the data for the market analysis.

Current Implementation Status	Not Implemented
Current Implementation Date	September 2023
Status Update Narrative	The Department will review benchmark jobs with median market base salaries that vary by 10% or more between the full year (FY 2022-23) and maintenance year (FY 2023-24). Upon completion of the FY 2023-24 maintenance year report in October 2022, the Department will compare as requested. The comparison may be completed by looking at each benchmark job's market match median market base salary for FY 2022-23 compared to FY 2023-24 and determine if there is a variance of 10% or more. If there is, the data point may be reviewed to see if it is valid by looking at all the year-to-year survey matches to see if the match was correct, if the survey changed, or if the data cut changed.

Recommendation 1d

The Department of Personnel & Administration (Department) should continue to strengthen its annual compensation study process and ensure the validity and reliability of the underlying data being used to assess the prevailing labor market by:

- d. Continuing efforts to obtain salary survey data that is as current as possible and avoiding relying on data that is aged more than 24 months.

Current Implementation Status

Implemented

Current Implementation Date

September 2021

Status Update Narrative

The Department worked with its new vendor on efforts to obtain salary survey data that is as current as possible and, to the extent possible, specifically for the FY 2022-2023 Annual Compensation Report. Due to the timing of the publication of surveys and the deadlines associated with the report, it is not possible to completely limit aging to 24 months. The Department will continue to work with its vendor to limit the use of data aged more than 24 months on future surveys whenever possible.

Recommendation 1e

The Department of Personnel & Administration (Department) should continue to strengthen its annual compensation study process and ensure the validity and reliability of the underlying data being used to assess the prevailing labor market by:

- e. Reviewing those benchmark jobs with significant differences between the lowest and highest median market base salary data points from the salary surveys for reasonableness and appropriateness.

Current Implementation Status

Implemented

Current Implementation Date

September 2021

Status Update Narrative

The Department completed the data review with the new vendor and made necessary adjustments to job benchmarks. To do this, the Department looked at all benchmarks and the survey matches. Each survey match includes a brief description of duties. Those duties were reviewed to ensure they were an 80% match for the State's classified title. If it was not, it was removed and another selection, if possible, was made. For example, when reviewing the matches for a Nurse 1, the lowest median data point was around \$50,000 and the highest data point was around \$90,000. Reviewing duties for the \$90,000 data point, it was shown that the match was for a charge nurse/supervisory role and was not the correct match for the Nurse 1. Another data point for the Nurse 1 was selected.

Recommendation 1f

The Department of Personnel & Administration (Department) should continue to strengthen its annual compensation study process and ensure the validity and reliability of the underlying data being used to assess the prevailing labor market by:

- f. Reviewing the referenced data cuts for the full year and maintenance year compensation studies to ensure they remain comparable, reasonable, and consistently reflect the State’s defined labor market.

Current Implementation Status

Partially Implemented

Current Implementation Date

September 2023

Status Update Narrative

At the recommendation of the new vendor, the Department moved to a methodology that pulled national matches with data cuts of public and private industry and adjusted them to the State of Colorado as the defined labor market. This approach creates better consistency year-to-year.

To work toward full implementation, the Department will review data cuts between the full (FY 2022-23) and maintenance year (FY 2023-24) to ensure they remain comparable, reasonable, and consistently reflect the State’s defined labor market. Upon completion of the FY 2023-24 maintenance year report in October 2022, DPA will compare the report to past reports as requested. This review will consist of looking at year-to-year data cut changes. If data cuts are not comparable, reasonable, and reflective of the State’s defined labor market, the Department will work with the vendor to make appropriate changes that could result in changes in methodology or data cuts moving forward.

Recommendation 1g

The Department of Personnel & Administration (Department) should continue to strengthen its annual compensation study process and ensure the validity and reliability of the underlying data being used to assess the prevailing labor market by:

- g. Modifying the custom survey to prioritize and provide more balance to public sector employers when gathering salary information.

Current Implementation Status

Implemented

Current Implementation Date

September 2021

Status Update Narrative

In lieu of the custom survey the Department worked with the new vendor to pull both private and public survey matches and data cuts to provide a 50/50 blend of public and private sector employers where possible.

Recommendation 1h

The Department of Personnel & Administration (Department) should continue to strengthen its annual compensation study process and ensure the validity and reliability of the underlying data being used to assess the prevailing labor market by:

- h. Modifying the custom survey to collect available incentive pay data from public sector employers and reassessing the incentive pay calculation to ensure that it reflects an average of all published data sources.

Current Implementation Status

Implemented

Current Implementation Date

September 2022

Status Update Narrative

The custom survey is no longer used by the Department. The new vendor's methodology calculated the overall average market incentive pay as a percent of market base salary for all benchmark jobs. Incentive pay data was collected using the published survey sources and included looking at salary tiers and the amount of incentive pay found in the market for the level of compensation. The Department will continue to work on how incentives can be reflected in the annual compensation report. Current system and agency practices make it difficult to obtain data for State of Colorado employee incentives that is accurate and reliably comparable to industry practice.

Recommendation 2

The Department of Personnel & Administration should consider and assess alternatives to its full year—maintenance year approach to the annual compensation study and submit a report to the Legislative Audit Committee and the Joint Budget Committee on any recommended changes, including any necessary statutory changes, by December 31, 2021.

Current Implementation Status

Implemented

Current Implementation Date

December 2021

Status Update Narrative

The Department issued a memo to the Chair of the Legislative Audit Committee and the Chair of the Joint Budget Committee on December 31, 2021. The memo outlined the Department's consideration and assessment of alternatives to the full year—maintenance year approach to the annual compensation study.

The Department also submitted a Decision Item as part of its FY2023 Budget Request that the full Total Compensation Report and associated actuarial services be moved to a quadrennial cycle. The Joint Budget Committee sponsored House Bill 22-1337 that made these changes. Governor Polis signed the bill into law on April 25, 2022. The Department will now produce the full Total Compensation Report every four years. The next report is due by October 1, 2025.