

# LEGISLATIVE AUDIT DIVISION

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## MEMORANDUM

**TO:** Legislative Audit Committee Members  
**FROM:** Crystal Armstrong, Performance Auditor  
**CC:** John Lewis, Director, Department of Administration  
**DATE:** September 2018  
**RE:** Performance Audit Follow-up (18SP-10): Oversight of Discretionary Pay Changes for State Employees (orig. 15P-05)  
**ATTACHMENTS:** Original Performance Audit Summary

### Introduction

The *Oversight of Discretionary Pay Changes for State Employees* report (15P-05) was issued to the Legislative Audit Committee in January 2017. The audit included four recommendations to the Department of Administration (DOA) and two recommendations to the legislature. We conducted follow-up work to assess implementation of the report recommendations. This memorandum summarizes the results of our follow-up work.

### **Overview**

Our original audit found inconsistencies in pay changes and limited oversight by DOA, indicating changes in policy and statute were warranted. We made four recommendations to DOA and two recommendations to the legislature. Recommendations to DOA emphasized a more proactive oversight role for the department. Our follow-up work indicates the department has made measurable progress toward implementing these recommendations. We found one recommendation implemented, two partially implemented, and one being implemented, with plans and timeline in place for completion. Recommendations to the legislature asked for statute mandating a biennial investigation by DOA on the operation and effect of discretionary pay changes, and for statutory clarity regarding discretionary versus statutory pay adjustments. These recommendations have not been implemented.

### Background

In Montana's Executive Branch agencies, the broadband pay plan applies to the majority of employees. The plan provides a pay structure framework based on nine pay bands which provide internal equity and external pay comparison mechanisms. A key component of the plan is providing agency flexibility in establishing and implementing their own pay policies. Discretionary pay changes are not directed by the legislature, but are given at the discretion of agencies based on their individual pay plans. During the 2015 fiscal year when the original audit was conducted, over \$9.5 million in discretionary pay changes were awarded by agencies. In that fiscal period, we reviewed 200 pay changes and found over 86 percent were not properly supported with documentation required in agency, state, or collective bargaining policy. State law requires DOA to encourage and exercise leadership in personnel administration, including the

pay change process. The decentralized nature of the broadband pay plan, when coupled with limited oversight of agency pay plans, policies, and pay changes by DOA, led to inconsistencies and unsupported pay changes. The original audit report made four recommendations to improve DOA oversight of the pay change process, and two recommendations to the legislature to enhance accountability, and to provided statutory clarification.

### **Audit Follow-up Results**

As part of our follow-up work, we conducted interviews with DOA and other executive branch agencies that were a part of the original audit, reviewed related legislation from the 2017 session, examined the revised broadband policy and reference documents, examined updated agency pay policies, and reviewed training materials created by DOA regarding pay changes. The following sections summarize information relating to follow-up work and the implementation status of recommendations.

#### **RECOMMENDATION #1**

**We recommend the Department of Administration take an active role in the pay change process by:**

- A. Developing and implementing additional policy to determine what pay change types are available to agencies.**
- B. Establishing minimum levels of documentation for support and justification of pay changes.**
- C. Developing and providing training to agency staff on proper pay change procedure, including how to properly support and implement pay changes based on updated state pay change policy.**

#### **Implementation Status – Partially Implemented**

Part A of the recommendation sought to increase DOA guidance over the decentralized pay change process and has been implemented. In October 2017, the department published a revised broadband pay policy. The new policy requires the department to review and approve individual agency pay policies at least once every two years, including approval of pay change types used by the agency. We believe this review will ensure pay change types in agency policy align with state policy and the Statewide Accounting, Budgeting, and Human Resources System (SABHRS).

We found Part B of this recommendation is partially implemented. DOA has provided more guidance for agencies about the types of documentation which may be used for different types of discretionary pay changes, including a master catalog and flow chart, though they have not clearly articulated a required minimum level of justification. This leaves room for interpretation by agencies, which in initial audit work was the source of numerous inconsistencies, a lack of documentation, and improper application of pay changes. However, DOA believes their review of pay changes (discussed under recommendation #4) will help to ensure consistent support of pay changes.

Part C of our recommendation is implemented. Our follow-up work indicated the department has conducted several online and in-person trainings for agencies regarding new policy content and is currently working with agencies as they revise their own pay policies. They have created a model pay policy and other reference documents, all of which are accessible to agencies online through the SABHRS HR information center. We reviewed the available archived trainings and associated templates, and found that they align well with broadband policy changes and provide a high level of detail and guidance for agencies. Follow-up interviews with agency human resource managers indicated having the training materials available online for reference has been especially helpful.

## **RECOMMENDATION #2**

**We recommend the Department of Administration condense and simplify pay change options available in Statewide Accounting, Budgeting, and Human Resources System.**

### **Implementation Status – Implemented**

Work conducted during the original audit identified inconsistencies in pay change coding in SABHRS at the agency level and confusion amongst agency staff regarding differences in the available types of pay adjustments. Our recommendation to condense and simplify pay change codes sought to remedy this confusion. Our follow-up work found DOA has implemented the recommendation. In July of 2017, it completed revisions of pay change codes in SABHRS. The SABHRS code options available to agencies for pay changes now align with options in the revised broadband pay policy. DOA also created a summary of the code changes, and a master catalog of codes and related details. The department has also conducted trainings for agency staff regarding the changes. All this information and the archived training presentations are available to agencies online at the SABHRS HR information website. During follow-up work, we spoke to agency human resource staff who confirmed changes to available SABHRS pay change code options has been valuable in clarifying available options and differentiating between each pay change type.

## **RECOMMENDATION #3**

**We recommend that the Department of Administration:**

- A. Establish and implement a review process for agency pay plans based on state policy to determine if pay plans meet minimum requirements for pay change support, and**
- B. Assist agencies in establishing measurements for the success of their pay plans.**

### **Implementation Status – Partially Implemented**

Our original audit work found agency pay plans often did not align with agency pay practices or with state pay policy. To assure agency policy conforms to state policy, we recommended DOA review agency pay policies.

Part A of this recommendation is implemented. DOA has established a review process in policy and put the process into practice. The revised broadband policy indicates DOA is responsible for reviewing and approving agency pay policies. This process includes a review of agency policy content, and assures agency policy aligns with, and meets the responsibilities outlined in the broadband pay plan. During follow-up work, the department provided us with information on the status of each agency's progress through this review process, and copies of policies that have been reviewed and approved. We also reviewed policies of two agencies that completed the review process and interviewed human resource staff at these agencies. Agency staff we spoke to during follow-up work affirmed the review process was helpful and a step forward in aligning agency and state expectations.

Part B of this recommendation is partially implemented. The department created and published a metrics tool on the SABHRS HR information site and is updating the tool quarterly with pay change data. The tool provides state data on pay changes by agency, occupation, and reason for the pay change. The metrics tools also allow an agency to examine its application of pay changes and compare to other agencies. DOA provided trainings on the tool and associated reports in February of 2018. This is one potential avenue for policy evaluation, but neither agency we spoke to during follow-up was using the metrics reports or had an evaluation plan in place. DOA has another tool in development, which will be a turnover cost calculator. It will provide agencies with metrics about recruitment, training costs, and turnover costs. They also have a draft reference document that provides guidance for agencies on how to

evaluate their pay policies, what should be measured, and what actions can be taken based on findings. Next steps by DOA includes providing guidance to agencies on how to use these tools to measure the success of their pay plans.

#### **RECOMMENDATION #4**

**We recommend the Department of Administration take a more active role in the pay change process, including developing and implementing an annual review process of pay changes to determine if they are properly supported based on agency policy, updated state policy, and union collective bargaining units.**

#### **Implementation Status – Being Implemented**

Our original audit found a lack of central oversight of discretionary pay changes. To increase accountability for pay changes that occur outside of legislative control, we recommended a centralized review process. DOA indicated in their progress update sent to the Legislative Audit Division in March 2018 they intended to begin implementing this recommendation in July of 2018.

Our follow-up work found progress on this recommendation thus far has centered on establishing and implementing the policies and procedures necessary to sufficiently conduct reviews of agency policies. Department officials want the revised agency policies reviewed and in place before they assess the execution of those policies. Currently, DOA is working on developing standards for their review process, and has provided us with their draft plan. The plan outlines steps DOA will take to review pay processing, levels of documentation and justification for pay changes, agency pay policy compliance, and agency policy evaluation efforts. We found the draft plan clearly articulates metrics for these four areas, and expect it will address the intentions of this recommendation once it is complete and in use. Our conversations with DOA officials indicated they expect to have the review process fully implemented and the first round of reviews completed by July 2019.

#### **RECOMMENDATION #5**

**We recommend legislation be enacted requiring the Department of Administration to:**

- A. Conduct a biennial investigation of the operation and effect of the application of discretionary pay adjustments under the broadband pay plan, and**
- B. Report results of this analysis prior to the commencement of each regular legislative session.**

#### **Implementation Status – Not Implemented**

Our original audit found limited information was available to the legislature regarding discretionary pay adjustments. More information about pay adjustments would help legislators consider the effects of agency personal services budget requests and have more complete information when considering statutory pay adjustments.

Broadband pay plan legislation passed during the 2017 Legislative Session did not address this recommendation. Senate Bill (SB) 294 includes language that requires pay increases above an employee's occupational wage range in the broadband pay plan to be reviewed and approved by the Office of Budget and Program Planning. The legislation did not, however, mandate a biennial investigation by DOA of discretionary pay adjustments, nor did it mandate a report of this information to the legislature prior to each session. As a result of our original audit, DOA has taken steps to develop pay change reporting tools. Currently, however, there is no requirement that DOA report this information to the legislature. As in the initial audit, we continue to believe that legislation mandating these two actions would ensure the

legislature has more complete information regarding the use of discretionary pay adjustments, and would ensure the broadband pay plan is achieving its intended goals.

**RECOMMENDATION #6**

**We recommend legislation be enacted to clarify state laws regarding the use of statutory and discretionary pay adjustments under the broadband pay plan.**

**Implementation Status – Not Implemented**

The intent of the broadband pay plan is to give agency management greater latitude in the establishment and execution of their pay plans. During the original audit, staff found pay adjustments were given in across-the-board statutory pay adjustments to all state employees. This limited the discretion of agency management to distribute pay adjustments according to their agency pay plans; particularly for agencies whose budget constraints do not allow them to use pay adjustments beyond those mandated in statute. We recommended legislation clarifying the intended balance between statutory and discretionary changes.

Broadband pay plan legislation passed during the 2017 Legislative Session did not address this recommendation. Statute speaks directly to across-the-board adjustments without specifically addressing an agency's ability to use discretionary pay adjustments. However, neither SB 294, which was passed, nor HB 464, which was not enacted, provided clarity regarding an agency's ability to use the discretionary pay adjustment tools in their agency pay plans. The continued use of across-the-board adjustments by the legislature leaves in question an agency's ability to use discretionary pay tools in their agency pay plan. We continue to see value in legislation clarifying the intended balance between statutory and discretionary pay changes.