CHAPTER 5

Compensation system lacks transparency

Without an understanding of the system, stakeholders are confused, frustrated, and generally lack confidence in it.

Information about the state government employee compensation system is not readily available or easily understood. The system directly affects 7,580 full-time employees plus part-time employees, yet it is doubtful that many could piece together an explanation of the system from the fragmented information provided by HRD. Policymakers, who are asked almost annually to appropriate millions in state dollars to support the system, must rely upon anecdotal understanding and non-specific explanations to make their decisions.

This lack of understanding leads to employee frustration, policymaker confusion, and ultimately, to stakeholders viewing the system with suspicion and indifference rather than confidence. HRD needs to focus upon communication in the ways other states have in order to convey the vision, mission, and policies associated with the state's market pay compensation approach, as well as its performance.

Information on state compensation system must be gathered from various sources

The 2004 "State of Wyoming Compensation Policy" presents goals for the market pay system.

Currently, HRD's principal means of communicating the state government's market pay system is a 37-page document entitled "State of Wyoming Compensation Policy." Issued in September 2004 and updated a year later, the Governor's forward describes the new policies and procedures as "the first of many steps in the right direction;" the forward also describes compensation as a "highly evolving process." In the initial policy, the Governor pledged improved equity within and across state agencies, and minimum earning standards to rise above 100 percent of market entry levels. The Policy's continuing goal is to:

> "Provide a market-based target hiring range and establish fair and equitable base pay and non-base pay actions that will be uniformly applied for all state employees."

The policy is primarily a procedures-oriented document for HR managers.

The content of the policy, however, does not provide additional explanation of either the goal or the state's plan to reach it. Instead, it is primarily a procedures-oriented document, apparently aimed at agency managers who handle compensation issues. It outlines specific steps in making compensation adjustments under different circumstances, but includes few definitions of the terms used. In short, it offers little clarification to anyone who is not already highly involved in administering the compensation system, or who has not dedicated time and effort to understanding it.

Web site offers information without explanation

There is no guidance indicating how to use the information provided on the web.

HRD maintains an "employee compensation" web site, http://personnel.state.wy.us/secc/seccindex.htm, within the Department of Administration's Human Resources Division grouping of sites. There, it lists links to several types of compensation-related information, such as the Compensation Policy discussed above, and market compensation tables dating back to 2000. However, beyond caption descriptions, it offers no explanation of the materials or general introductory comments for them. Thus, employees and other stakeholders are left to cast about in the information made available, without any guidance about which is pertinent and which is not.

The site features pay band information that is no longer applicable.

The site includes information that has expired as well as information that is prospective. For example, along with the market compensation tables, the site still features pay tables related to the pay band system. HRD officials say the narrower market pay ranges for each classification are more reflective of the salaries employees can expect, and no employee can be moved above market average without HRD approval. Thus, leaving the pay band information on the site without explanation serves to confuse employees, who might believe they have the potential to earn up to the top of their pay bands.

A helpful and self-explanatory feature on the site is the "total compensation worksheet." This enables employees to enter their specific salary information and learn the value of their benefits, including health insurance, retirement, sick and annual leave, Social Security and Medicare, and others. The worksheet also calculates the value of the benefits as a percentage of base salary.

Bulletins and minutes impart disjointed information

The HRD administrator writes a monthly bulletin, also available on the web site, which is intended for agency directors and human resources personnel to use in communicating with employees. However, because it is abbreviated and uses specialized terms and concepts, readers must be knowledgeable about the compensation system and recent related occurrences in order to follow it. From our conversations with agency human resource personnel, there is confusion even at that level, which does not bode well for average employees understanding what the bulletins are reporting.

Readers must be well informed about compensation issues to understand the bulletins and the minutes.

Compensation Commission meetings offer opportunities for those employees and other stakeholders who are able to attend them to learn about the state's compensation system. The Commission did not meet during the research phase for this report, so LSO reviewed years of meeting minutes. These minutes are also posted on the Internet, presumably to keep interested parties not in attendance up-to-date with compensation plan modifications. However, the content of minutes is also difficult to construe without a considerable background in the applicable concepts and terms.

Other states produce annual reports

Explanatory reports with analytical and performance components are typical in other states.

An explanatory report with an analytical/performance component would be consistent with the kind of reporting being produced in other states. We reviewed state-produced reports on compensation systems in the region, including Colorado, New Mexico, Texas, Idaho, Arizona, and Montana, as well as several independent audits of states' pay systems. No two of these states operate under the same system, some are unionized - some not, each uses somewhat different terminology, and each has its own unique circumstances and political dynamic. Nevertheless, we found that most human resources administration divisions annually produce reports on the current status of compensation in their state governments. For example, in several of the states, the executive branch is statutorily required to submit an annual report to the governor and the legislature. Some of the state human resource departments are charged with including "advisory" recommendations on that state's pay system.

The Colorado report shows which individual classifications are to be adjusted, and why.

Colorado details survey process. While each of these states does a good job of explaining its practices, Colorado is particularly open about its processes. Like HRD, the Colorado human resource division has the authority to establish technically and professionally sound survey methodologies, conduct the surveys, analyze data, and report on survey findings. However, it explains in detail in a report appendix the steps taken in conducting this process. For example, the report includes a listing of the surveys and sources used to capture information about Colorado public and private employers, and detail the criteria for selecting them.

The report shows which individual class adjustments the Department believes are necessary and why; it also estimates the total biennial costs of making those adjustments. When comparing state job classes with the labor market, the report lists the criteria the Department used for determining whether an adjustment is necessary.

By statute, Colorado's compensation survey must be audited annually for performance.

To ensure the quality of the salary survey and benchmarking information, the Colorado General Assembly requires an annual performance audit of the Department of Personnel & Administration's annual total compensation survey. A recent audit recommends that Colorado "continue to educate employees about how compensation is determined." In its response to the audit, the Department uses the term "transparency" to describe its commitment to openly promulgate rules, explain methodology, issue informal publications, and meet with employees to explain compensation practices.

A goal is maintaining stakeholders' understanding and confidence.

In addition to being audited by experts, the Colorado Department of Personnel issues its own report on performance. With a major goal of maintaining stakeholders' understanding and confidence in the selection of surveys, the Department also meets with managers and employees to obtain input.

Other states present different types of information. New Mexico's report is also forthcoming but in different ways: for example, it shows exactly how many employees are under the minimum and over the maximum of their pay band, and shows the distribution of salaries by $10,000 groupings. It also summarizes industry and economic data from several sources, including WorldatWork, CSSS, and the Bureau of Labor Standards Employment Cost Index, to gauge what sort of salary structure adjustments and salary increases are occurring elsewhere. Finally, the report presents where salaries fall with respect to the state policy. For example, New Mexico has a policy to pay at 95 percent of the market, which that state considers competitive because of the value of employee benefits. The report graphs where practice is in relation to that policy.

New Mexico summarizes other economic data to gauge salary adjustments occurring elsewhere.

Similar information is found in other states' reports. For example, Texas' report gives a methodological description of how market data is weighted for consistent analysis. Arizona's report states that there is "an obligation to the taxpayers to recruit and retain an effective, productive, efficient, and stable workforce. It is important to pay employees competitively…." To that end, Arizona conducts and participates in numerous salary surveys of other governmental employers in the region, large and small, and of private employers. Montana's report also explains its market survey methodology, which includes using federal Occupational Employment Statistics (OES) survey data.

Other states present compa-ratios to show how average salaries compare with the market averages.

Other useful features found in some of these reports are tables or charts that show how average salaries of employee classifications compare with their market averages, or compa-ratios. Idaho presents this information by agency as well. Thus, it is possible to quickly identify those classifications or agencies that are below or higher than the market.

Other components of Wyoming state employee compensation are better communicated

Both the Wyoming Retirement System and Employees Group Insurance, another division within HRD, create easy-to-read bulletins telling about the state benefit systems. These are printed documents distributed to state employees that announce plan changes and explain benefits. Even if HRD maintained an on-line bulletin to limit costs, writing it in the more accessible style found in these publications would strengthen communication.

Retirement and Group Insurance are better at communicating.

Employees and policymakers do not understand what is occurring with the state's compensation plan

Our sampling of agency managers indicated a lack of understanding even at that level.

Often, employees rely upon agency managers or agency human resource professionals for compensation information that is more illuminating than that offered on the HRD web site. Yet from interviews with a sampling of these managers, in both large and small agencies, it was clear that there is a good deal of confusion and misunderstanding. As one official noted, "There is an agency responsibility for getting the information out to employees, but there should be some explanation of what is going on so that employees in all agencies are getting the same information."

Employees do not know what HRD considers when making compensation adjustments.

Another characterized state employees as believing that the current level of pay and the existence of any future increases are decided "in a purely arbitrary way." Because HRD does not publish its assumptions and methodologies, employees have no way to know what factors HRD considers when making adjustments to compensation rates. Some examples of factors HRD may or may not be considering are: whether an adjustment is given for the purpose of achieving internal alignment (equity in the relationship among state classes) or external alignment (with market practices); if external, what the magnitude of difference needs to be between state pay and the market average; whether that rate difference must be consistent and must have existed for a defined period of time; and whether recruitment and retention difficulties have been documented in those classifications being adjusted.

Knowledge of coming performance component is lacking

One of the areas where agency personnel lack knowledge is that relating to performance as an eventual avenue for additional compensation. One manager commented that the lack of a performance system is a dampener on employee morale. Several others said that employees are frustrated without a way to move up in their salary ranges, apart from the movement afforded by external cost adjustments.

HRD is planning to begin implementing a performance component in 2007.

LSO learned that for more than two years, HRD has been developing a performance aspect to the current market approach, which it hopes to implement in 2007. The system under development is called a "competency based performance appraisal system" which has a goal of "minimizing subjectivity and replacing it with objective criteria in measuring job performance." The new system will give high-performing employees opportunities to increase their skills, and pay adjustments associated with it likely will be in the form of bonuses rather than increases to base pay. HRD, along with agency representatives, is working to develop the system.

Advance preparation and explanation will be necessary, but have not occurred yet.

However, this plan was not mentioned by the agency representatives interviewed for this report, who would seemingly know of it by virtue of their positions. Since the proposed plan seems to be a significant change, requiring widespread employee buy-in to succeed, advance preparation and information would be beneficial.

Employees are not aware that compression is intentional in the new market pay approach

LSO learned that many employees are complaining about compression, as they see other employees beginning the same state job at salaries near their own. The new market pay approach intentionally creates such compression during this period of transition, but HRD is not coming forth to explain why. Officials have determined that, "Having many employees paid at market is a good thing. If they are all doing the same work, they should be paid close to the same rate. Our separate longevity program still provides recognition of length of service."

HRD sees compression as necessary during the transitional phase, but is not communicating its rationale.

LSO analysis of the payroll data indicates that compression of employees within the same classification in the same agency is not occurring to the extent some may believe. This may be because the Compensation Policy urges agencies to adjust existing employees' salaries if they hire employees at higher rates, if they can afford to do so. The compression in wage rates that still exists is more likely to be among rather than within agencies. This is likely a carry-over from the compensation practices that pre-date the current market approach, when some agencies paid high salaries in comparison to others.

Policymakers' understanding is assumed

HRD contends that it has never been able to administer the same type of market adjustment twice, because there has not been adequate funding to address the constantly changing market. True, other than in 2000 and 2001, the Legislature has not made a large appropriation directed at bringing employees up to market wages. HRD officials say that legislators tell them that they thought the 2000-2001 appropriations had "taken care" of the market issue.

HRD and the Compensation Commission do not adequately explain their requests for more compensation funding.

Yet, rather than report on the current status of state employee compensation with respect to market, or explain how market numbers have been determined, HRD and the Compensation Commission present only requests for more money to implement market adjustments. Since the requests for market adjustments do not appear in an exception budget request, there is no written narrative, leaving the talking points that accompany the request as the only justification.

Executive branch's discretionary changes to compensation are difficult to identify

In law, the Legislature has often granted discretion to either the Employee Compensation Commission or HRD in the allocation of at least a portion of the money appropriated for market compensation increases. In effect, however, this discretion rests with the Governor, with HRD and the Compensation Commission making recommendations. Beginning in 2000-2001, when the executive branch determined how to distribute the Legislature's large appropriation for market adjustments, and continuing through 2005, there have been multiple opportunities for application of this discretion in making compensation adjustments. Further, the executive branch had statutory authorization to use reversions of 2003 appropriations for salary and benefit increases through June of 2006.

There is no formal reporting of what the executive branch does with its discretion in adjusting compensation.

Without formal reporting of what the executive branch elects to do with its discretion, there is no way for either policymakers or employees to gage whether progress is being made toward market-based compensation using these funds. We were able to determine the changes HRD made in 2004 and 2005 in employees' compensation by combining and comparing information from a variety of sources, including interviews with HRD officials, newspaper articles, and Compensation Commission minutes. We also had confidential access to employee pay records for selected months from June 2001 and January 2006. However, because specific documentation of these discretionary changes before 2004 is unavailable, it would difficult to determine exactly what adjustments have been made over the years using either reversions or appropriations.

HRD lacks a tradition of written communication

Two previous evaluations of the state's human resources division found that its communication efforts could be improved. First, a 1990 LSO Program Evaluation of the Personnel System found that:

Two previous evaluations have urged HRD to improve its communication efforts.

> "The Personnel Division does not routinely provide the entire Legislature with employee compensation and benefit data and analysis. Rather, it provides piecemeal information to individual legislators upon request. Consequently, when making salary decisions, the Legislature as a whole does not have comprehensive information."

The evaluation went on to comment that as a result, the Legislature votes on general pay increases without the benefit of the statistical analysis that would inform decisions. The 1990 recommendation was that the Division analyze pertinent compensation information and annually report it to the Legislature and the Governor. Further, the report commented that the public dialogue on this topic would benefit from having this information. The Division's response to this recommendation was neutral, and it does not appear that it was implemented.

The second evaluation was done by an outside human resources organization in 1992 under an A&I contract and was reviewed as part of the 1993 Task Force #7. That evaluation's observation was that the Personnel Division "seems reluctant to provide information that has not specifically been requested, (and to) educate decision makers about the data available and how and why it would be beneficial to them." Its recommendation was that the compensation administrator and the agency director assume an active role in the "never-ending" task of educating and regularly communicating with decision makers about compensation theory and practice.

HRD weakens the system by not communicating more fully, because policymakers do not understand what support is necessary.

Thus, despite specific recommendations to do otherwise, HRD has continued a tradition of minimal communication. HRD recognizes that stakeholders tend to view the compensation system from only their individual perspectives and do not hesitate to voice critical opinions when they perceive themselves losing something because of HRD decisions. However, if the thinking has been that not delivering the message will protect the messenger, we believe it has served only to increase criticism and frustration. More importantly, by not communicating more fully, HRD weakens the compensation system's viability because policymakers do not understand what is necessary to support it.

Recommendation: HRD should produce an annual report on the status of the compensation system that includes explanations of its methods and analysis of wage rates.

HRD needs to do more to explain its decisions and the reasons behind them, the assumptions it is making when taking action, the methods it adopts and, overall, its view of the system's progress and shortfalls. Developing and reporting this kind of analysis and assessment are likely to inspire greater stakeholder confidence and support than appear to exist currently. Such reporting will also demonstrate accountability in the use of state funds.

Such reporting would inspire greater confidence in, and support for, HRD actions.

The Legislature may wish to require an enhanced annual report from HRD, similar to those produced in other states. Other methods of enhancing stakeholder understanding could be for

HRD to post on-line a frequently-asked-questions (FAQ) section, and to more publicly involve "subject matter experts" in reviewing benchmark choices in some contentious positions.

Verbal explanations are too temporary and open to misunderstanding in this wide-spread system.

One reason we emphasize the importance of publicly-available written information is that in such a large employee system, and one with such wide geographic coverage, verbal explanations turn out to be too temporary and open to misunderstanding. Employees need a stable source of information about the system under which they are being paid; similarly, policymakers need consistent information about the reasons for the executive branch's annual or nearly-annual requests for appropriations.

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