
AGENCY RESPONSE

Market Pay



STATE OF WYOMING
DEPARTMENT OF ADMINISTRATION
AND INFORMATION
Director's Office

Dave Freudenthal
Governor

Earl Kabeiseman
Director

Date: June 22, 2006

To: Representative Randall Luthi, Chairman
Management Audit Committee

From: Earl Kabeiseman, Director
Department of Administration & Information

Re: Management Audit Committee Audit on Market Pay

I received your memorandum dated June 13, 2006 concerning the report draft on Market Pay. The Human Resources Division's (HRD) comments are as follows:

1. Recommendation: The HRD should obtain an independent professional review to evaluate whether it is appropriately defining market.

The HRD partially agrees with the comments made by the Program Evaluation Team.

Comments: When the State first implemented the market pay philosophy, a team of agency representatives developed the current market definition. The HRD believes that working with agencies is the best approach in identifying the State's relevant labor market. If the state hires an independent contractor, they would possibly use the same process of surveying agencies and compiling the responses. The HRD can accomplish the same objective at a reduced cost without external professional help.

Each of the entities mentioned in this recommendation has staff available with the expertise to expand a broader spectrum of public and private sector wage data in order to better reflect Wyoming's labor market. It would be more cost effective to utilize this internal expertise in developing and incorporating additional market data into our baseline data. Independent contractors are costly and would provide the same results.

2. Recommendation: The Legislature should consider adopting a more fine-tuned approach to funding employee pay increases.

The HRD partially agrees with the comments made by the Program Evaluation Team.

Comments: The External Cost Adjustment (ECA) is based upon the Wyoming Cost of Living Index which is a reflection of the costs to live in Wyoming from one year to the next. It is not a labor market driven percentage increase, and it is important not to confuse the two processes. Appropriated funding for market adjustments will be used to close the gap between salaries. Funding for the ECA will allow employees to retain the same level of purchasing power from one year to the next.

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The combination of market pay and the ECA fosters competitive salary rates. With consistent funding for the most current market rates and the ECA, the state should be able to maintain employees' salaries at competitive rates.

Although the ECA works towards keeping up with market rates, it was not to be considered a part of the market pay process. The intent of the ECA is to keep purchasing power at a commensurate level with an individual's base salary. If the state were to institute a graduated process to address market levels, individuals receiving the lesser amount would lose purchasing power from one year to the next.

3. Recommendation: The HRD needs to develop more comprehensive guidance in rules and policy to clarify how and why future adjustments will be made.

The HRD agrees with the comments made by the Program Evaluation Team.

Comments: The HRD will work to enhance the compensation policy and provide relevant educational tools to include market definition and methods of implementation. The Executive Branch's goal of moving salaries closer to one market rate can be adjusted by focusing on moving salaries into the competitive market range. This will broaden the definition of market.

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

The HRD agrees with the comments made by the Program Evaluation Team.

Comments: The HRD has begun researching other states' annual reports on compensation. The HRD will develop additional approaches to engage all stakeholders in the compensation process. The HRD currently produces a comprehensive workforce report. It provides a solid foundation for the development of an annual report on compensation that will meet the recommendation of the Evaluation Team.

The HRD would like to clarify an issue. The charts and graphs used in presenting comparisons with market rates were created using the 2005 market rates. As the committee may know, the 2005 rates were not implemented and there was not an appropriation reflecting those market rates.