

REPORT TO THE
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A Performance Audit
of
Statewide Employee Incentives

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Digest of A Performance Audit of Statewide Employee Incentives

Chapter I: Introduction

Cash incentives—while granted on a lesser scale than the private sector—have long been used by state government agencies as a method for rewarding employee performance. However, concerns with incentive awards granted by state agencies were recently reported in the June 2003 limited review of incentive programs (ILR 2003-D, “Review of Tax Commission Employee Incentives and Performance Awards”). This report is in response to the legislative request to perform a follow-up statewide audit of employee incentives. Our objectives were to:

- Determine the extent to which state departments have given performance or incentive compensation in the form of cash or administrative leave.
- Evaluate whether such incentive awards are justified.
- Evaluate whether the awards are consistent with statutory provisions and administrative rules.
- Evaluate whether the awards are appropriate in a time of severe budget shortfalls.

Chapter II: State Agencies Have Reduced Cash Incentives

We found that state agencies have reduced cash incentives. In fiscal year 2003, state agencies in Utah combined to grant just under \$3.1 million in cash incentives to employees, as a supplement to regular employee compensation. While this appears to be a sizeable amount of incentives to grant during a lean budget year, it also represents a 48 percent decrease from the \$5.9 million in cash incentives granted two years previous, in fiscal year 2001.

Our more limited review of incentives granted for the first half of fiscal year 2004 (July to December 2003) continues to show a downward trend. We forecast that fiscal year 2004 incentive totals could be about \$1.6 million, a 48 percent decrease from \$3.1 million in fiscal year 2003.

Our review of the cash incentives for fiscal year 2003 also shows:

- the state General Fund is the source of almost all incentives,
- the average incentive for an employee was under \$400,

**Chapter III:
Agency Cash
Incentive Practices
Are Inconsistent**

- aggregate incentives amount to about 0.4 percent of the state’s payroll (\$3.1 million incentives of over \$700 million in payroll).
- several agencies gave incentives to a majority of their employees.
- some agencies increased incentive spending since fiscal year 2001.

To further review the cash incentives in fiscal year 2003, we conducted detailed reviews of incentives in a sample of 740 state employees in nine state agencies. These nine agencies accounted for over 82 percent of the incentives granted in fiscal year 2003. We evaluated cash incentives based on criteria included in the Department of Human Resource Management’s Incentive Award rule, and found:

1. Some incentives were not based on outstanding performance:
 - agencies granted sick leave incentives and retirement incentives which were not based on work,
 - agencies granted peer-to-peer awards for what appeared to be normal job duties, and
 - agencies granted “blanket” incentives (incentives offered to nearly every employee in a division, office, bureau, etc.).
2. Most incentive amounts were within spending limits set by rule.
3. Documentation varied widely among agencies. In many cases, documentation was not sufficient to show the incentive was based on exceptional effort.

**Chapter IV:
Leave Incentives
Were Granted But
Are More Difficult
to Track**

We also used our nine agencies to review administrative leave (time off with pay) as a performance incentive in lieu of cash. It appears that leave incentives are awarded much less frequently than cash incentives. However, weaknesses in the tracking of leave incentives prevented us from providing reliable statewide information about the amount or trend over time of such incentives. Our sample revealed:

1. Similar to the cash incentives, documentation of incentive leave was often insufficient for us to determine if the leave was based on exceptional effort.
2. About 56 percent of “other administrative” (OA) leave—the category which contains incentive leave—is clearly not awarded as a performance incentive. We screened three types of leave to

**Chapter V:
Incentive Rules
Have Changed But
Need Further
Improvement**

Recommendations

determine possible incentive leave: mis-coded funeral/military, Governor’s holiday, and disciplinary leave.

3. Incentive leave is interpreted and applied inconsistently. We found several categories of possible incentive leave, and other leave that was apparently non-incentives.

Largely in response to our 2003 audit review, DHRM has already enacted rule changes for incentives leave. But, our sample reveals that there is still work to be done to improve DHRM rules and processes.

- Rules for incentive leave are unclear: Current rules do not include incentive leave in “Incentive Award” rules for cash incentives.
- Many state agencies have granted incentives in fiscal year 2004 without an approved policy by DHRM.
- Agencies have incentive programs that are not based on exceptional effort, such as sick leave incentives and retirement incentives.
- Incentive rules lack documentation guidelines adequate to show cost savings and/or exceptional effort.

In response to these findings we make the following recommendations to the Department of Human Resource Management (DHRM).

1. We recommend DHRM clarify the rules for “incentive leave” by including the requirements of awarding such leave as part of its Incentive Award Rule.
2. We recommend DHRM consider limiting, in rule, the number of incentive leave hours granted per person, per fiscal year.
3. We recommend DHRM inform agencies who have granted incentives in fiscal year 2004 while having unapproved incentive policies, that they are not in compliance with state rules.
4. We recommend that DHRM review the validity of incentive award programs that do not appear to be based on job performance, such as sick leave incentives and retirement incentives. We further recommend that if DHRM determines that factors other than job performance should qualify for incentive awards, that rules be amended to clearly allow for these awards.

5. We recommend DHRM provide more guidelines on acceptable documentation for incentives to ensure that evidence of cost savings and/or exceptional effort is provided.

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Chapter I

Introduction

Utah law allows for a program of incentive awards for state employees.

Cash incentives—while granted on a lesser scale than the private sector—have long been used by state government agencies as a method for rewarding employee performance. Under the laws of state pay plans in *Utah Code* 67-19-12(4)(c)(iii), the director of the Department of Human Resource Management (DHRM):

shall issue rules for the administration of pay plans. The rules may provide for exceptional performance increases and for a **program of incentive awards for cost-saving suggestions and other commendable acts of employees** (emphasis added).

In fiscal year 2003, state agencies in Utah combined to grant just under \$3.1 million in cash incentives to employees, as a supplement to regular employee compensation. While this appears to be a sizeable amount of incentives to grant during a lean budget year, it also represents a 48 percent decrease from the \$5.9 million in cash incentives granted two years previous, in fiscal year 2001.

This report shows statewide employee incentives have decreased. But, each state agency has responded to the budget scarcity very differently.

This report summarizes recent cash incentives, as well as administrative leave granted in lieu of cash, in state agencies. Also, this report shows that incentives are inconsistent among state agencies despite existing rules from DHRM. Finally, this report suggests ways to improve incentive management, and points out significant challenges in obtaining accurate data on the use of administrative leave as an incentive in lieu of cash.

Differing Opinions and Expectations Exist Regarding Employee Incentives

There are differing opinions on how many cash incentives should be granted—particularly during lean budget times—which are noted below. We believe that incentive programs need to award those who are deserving because of their superior performance, not act as a blanket reward to all employees.

Our experience with our earlier review on employee incentives (Report ILR 2003-D, “Review of Tax Commission Employee Incentives and Performance Awards”) was that some in the Legislature had a natural expectation that agencies would decrease incentive spending as budgets tightened. In fact, some lawmakers expressed concern that although agencies had been directed to cut their budgets to bare minimums, they still had funds enough for significant cash incentives. In the audit, we note that there are varying degrees of responsiveness to budget shortfalls, shown by agency totals over the past three fiscal years.

Human Resource Theory Suggests Maintaining Incentives During Lean Times

Despite the expectation of lessened incentives, we acknowledge what DHRM calls “a current trend in human resource management theory [which] suggest[s] that it is in lean fiscal times that incentive award programs should remain in place.” DHRM further points out that “state employees have persevered through two consecutive years of no merit increases.”

Employees Picking Up Workload of Unfilled Positions. DHRM points to an additional concern over the past few years where some “. . . state agencies have systematically left positions vacant as employees left [and] the remaining staff had to assimilate the ‘ghost work’ left by the departing employees.” According to a recent writer for the *Washington Post*, this so-called “ghost work” appears to be a problem nation-wide; without incentives, this work goes unrewarded:

Workers’ problems go way beyond bonuses these days. While the economy is rising, jobs are still not increasing as fast. So employees are working harder to do their own work and the work of people laid off. Meanwhile the average hourly wage has risen so slowly that it has barely kept up with inflation (“Many Employee Bonuses Range From Puny To Nil,” Amy Joyce, *Washington Post*, re-appearing in *Deseret Morning News*, Dec. 28, 2003).

Incentives Seen As Effective Management Tool. As a final argument of the merits of incentives, DHRM points out a recent Government Accounting Office (GAO) report which gave the opinion that “effective management tools [include] incentive awards, both monetary and non-monetary.” The report continued to state that

Current human resource trends suggest incentives should remain in place during lean budget times.

The Government Accounting Office states that incentive awards are effective management tools.

employee incentives awards were one of the “most effective flexibilities” agencies could use in “acquiring, developing, and retaining high quality federal employees.” DHRM believes the same reasoning holds true with state employees.

As stated in our previous incentives review, we agree that state incentive and performance awards, when administered correctly, are not only appropriate, but are essential for a healthy work environment. We agree that *select* state employees need and deserve work incentives, but such incentives should be significantly reduced in tight budget times and given with extreme care based upon outstanding or superior productivity.

We reiterate that when correctly administered, incentive awards are tied to superior performance. But, in some cases they appear to be given too frequently and are based on weak standards. As we also pointed out in our previous review, an experienced human resource director in one of Utah’s larger state agencies stated the following,

If management rewards employees based on exceptional behavior and the behavior is not exceptional, then management is reinforcing behavior that is mediocre.

Audit Had Data Challenges

In one final introductory topic, we note the enormity of gathering detailed information on all cash incentives and incentive leave for employees in Utah state government. While we do provide aggregate totals, our analysis of individual incentives is limited to sampled data.

Cash Incentive Records Voluminous

Financial information compiled by the state’s Division of Finance list 43 separate agency organizations. Each of the 43 agencies maintain separate documentation on incentives granted. Many of the agencies have multiple regional offices which house the data, as well. During our survey phase, we selected a few agencies to test the process of data discovery, and found it to be more labor intensive than expected. Therefore, we made the decision to pare down our audit by examining a sample of employees from agencies granting the largest amount of cash incentives (nine of the

If incentive awards are not tied to superior employee performance, then “...management is reinforcing behavior that is mediocre.”

Detailed information on cash and leave incentives is given in our sample of nine state agencies.

43 agencies). Chapter III contains our findings on the cash incentives, with further detail appearing in the report appendices.

Leave Granted In lieu of Cash Incentives Not Separately Recorded

Gaining the desired information about administrative leave granted as an incentive in lieu of cash proved even more challenging. This is because incentive leave hours are not recorded in a separate category, but are lumped together with several other types of “administrative” leave hours in the Division of Finance’s databases. For example, an agency may report administrative leave granted for disciplinary leave or for the Governor’s four hours of “holiday leave” which are not separated from incentive leave under the “other administrative” (OA) code. Also, some funeral leave and military leave has been mis-coded under OA. Because of these reporting concerns, our findings on administrative leave incentives given in lieu of cash are limited. Recently, however, the Division of Finance added a unique code for tracking leave incentives which will facilitate review in the future. Chapter IV contains our discussion of administrative leave.

Audit Scope & Objectives

This audit is a follow-up to an informal letter report our office released in June 2003 entitled, “Review of Tax Commission Employee Incentives and Performance Awards” (ILR 2003-D). Specifically, the audit was approved by the Legislative Audit Subcommittee in response to the letter report recommendation which read, “We recommend the Legislature consider a full audit of whether state agencies’ use of cash and administrative leave incentives during recent lean budget years was appropriate.”

Overall, our objectives were to:

- Determine the extent to which state departments have given performance or incentive compensation in the form of cash or administrative leave.
- Evaluate whether such incentive awards are justified.

Audit objectives were to report state agency’s incentive compliance, justification and appropriateness during lean budget times.

- Evaluate whether the awards are consistent with statutory provisions and administrative rules.
- Evaluate whether the awards are appropriate in a time of severe budget shortfalls.

In addition to our listed objectives, the Audit Subcommittee further requested information on incentives as a percentage of employee salaries, as well as funding sources for the incentives. We provide such information in Chapter II and also in the data of nine sampled agencies which encompass over 82 percent of the incentive dollars spent in fiscal year 2003.

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Chapter II

State Agencies Have Reduced Cash Incentives

In the midst of increased scrutiny over incentive management practices and spending in state agencies, it appears the overall spending trend is significantly downward. It also appears, however, that agency responsiveness to incentive spending over the past three fiscal years (2001–2003) has varied widely. Of the 43 state agencies in our data set, we found that some agencies significantly decreased spending, others decreased more moderately and some actually increased incentive spending between fiscal years 2001 and 2003. Our more limited review of incentives granted for the first half of fiscal year 2004 (July to December 2003) continues to show a marked downward trend.

Note also that there has been increased scrutiny over the use of incentives awarded as leave hours given in lieu of cash in state agencies. While this chapter focuses mainly on cash incentives, Chapter IV contains our discussion on these incentive leave hours awarded in lieu of cash.

Cash Incentives Have Decreased

Cash incentives have decreased 48 percent—down \$1.6 million (from \$5.9 million in FY 01 to \$3.1 million in FY 03).

Overall, it appears that state agencies have adjusted incentive spending downward in response to budget shortfalls. Cash incentives decreased by 48 percent (from \$5.9 million in fiscal year 2001 to \$3.1 million in fiscal year 2003). However, it should be noted that the state’s largest agency—the Department of Human Services—accounts for 58 percent of this drop (or \$1.6 million).

In our view, the 2002 Legislative General Session (which is mid-way through fiscal year 2001) seemed to mark the approximate beginning of the state budget downturn. Therefore, we include fiscal year 2001, 2002 and 2003 in our review. During this period, and beyond, we expected that agencies would decrease their cash incentives spending as part of the budget tightening. But, despite overall decreases over three fiscal years, not all state agencies decreased. Figure 1 shows cash incentives given in the last three fiscal years for 43 state agencies.

Figure 1. Cash Incentives Awarded By State Agencies Have Decreased Largely Due to Human Services' Freeze on Incentives.

Org	State Agency	FY 03	FY 02	FY 01
600	Dept. of Workforce Services	\$ 782,312	\$ 943,204	\$ 695,788
270	Department of Health	467,662	598,555	464,576
810	Utah Dept of Transportation	394,911	585,120	614,480
550	School & Inst Trust Lands	288,185	155,469	201,695
560	Natural Resources	168,132	228,404	143,099
710	Community & Economic Dev.	150,100	202,680	156,797
410	Department of Corrections	140,860	538,728	635,236
100	Dept. of Administrative Services	138,550	311,178	302,247
120	Tax Commission	115,660	205,778	194,168
570	Department of Agriculture	80,265	28,920	127,760
400	Board of Education	50,838	83,150	74,431
480	Dept Environmental Quality	49,260	66,010	59,401
190	Utah National Guard	46,563	61,231	55,600
670	Department of Commerce	35,422	101,150	60,476
90	State Auditor	34,775	3,225	56,851
80	Attorney General	34,525	4,900	56,225
650	Alcoholic Beverage Control	23,922	24,496	19,976
140	Human Resource Management	23,125	45,944	31,950
660	Labor Commission	19,550	6,400	29,910
60	Governor's Office	17,650	17,795	43,760
180	Department of Public Safety	17,295	62,672	38,294
200	Department of Human Services	2,133	132,205	1,628,134
700	Public Service Commission	1,000	6,055	4,919
170	Navajo Trust Administration	650	1,100	900
680	Financial Institutions	300	8,000	6,575
50	State Treasurer	-	21,710	20,200
20	Judicial Branch	-	7,764	145,848
14	Leg. Research & Gen Counsel	-	5,800	2,007
11	Senate	-	3,000	1,000
130	Career Service Review Board	-	1,800	-
290	Medical Education Council	-	1,200	725
690	Insurance Department	-	700	19,000
400	Deaf and Blind School	-	500	795
30	Capitol Preservation Board	-	400	300
15	Legislative Fiscal Analyst	-	-	13,800
12	House of Representatives	-	-	4,000
13	Legislative Printing	-	-	750
16	Legislative Auditor General	-	-	-
70	Utah Science Center Authority	-	-	-
300	Building Board Construction	-	-	-
510	Board of Regents	-	-	-
720	Utah Sports Authority	-	-	-
900	Board of Bonding Commission	-	-	-
Total Incentives		\$ 3,083,644	\$ 4,465,244	\$ 5,911,675

Twenty-five of 43 state agencies gave incentives in FY 03.

Figure 1 shows that 25 of 43 state agencies gave incentives in the last complete fiscal year (2003). Note that the data in Figure 1 was retrieved from the Division of Finance's data warehouse. It includes financial data from all state agencies who use the FINET accounting system. A few quasi-state agencies (such as Utah Retirement Systems, Public Employees Health Plan, and the Workers Compensation Fund of Utah) which do not report through FINET have not been included in our review.

Incentives for Partial Fiscal Year 2004 Continue to Show Downward Spending Trend

Incentives granted for the first half of fiscal year 2004 (July to December 2003) continue to show a marked downward trend. This trend is likely in response to budget cuts and also our incentives review released in June 2003. From July to December, agencies spent \$515,571, which, based on our forecast puts the fiscal year 2004 total incentives at about \$1.6 million, which is down 48 percent from \$3.1 million for fiscal year 2003 total incentives.

Incentive spending for the first half of FY 04 is also down. The full-year forecast for cash incentives is likely to be about \$1.6 million.

To forecast the annual total, we determined the percentage of total incentives granted in the first half of fiscal year 2003 (July – December 2002). This total was \$980,285 of \$3,083,644 (32 percent). To be consistent in forecast, then, the actual incentives granted in fiscal year 2004 (July – December 2003) would account for 32 percent of the total year spending, or \$1.6 million.

From this we conclude that the majority of agencies continue to respond to the budget shortfalls by decreasing incentive spending. As discussed in the beginning of this audit, the question of whether this has a long-term negative impact on state employees—who may need incentives during hard budget times more than ever—remains to be debated as a policy direction.

General Fund is the Source of Most Incentives

As part of our audit assignment, we were asked to determine the funding source of the incentives shown in Figure 1. The majority of the funds are general funds, shown as Charge Fund 100 in the FINET system. Fund 100 is the state's appropriated fund which includes

dedicated credits, general funds and federal funds. Regarding incentives, there are a few notable exceptions for the fund source:

- The Department of Workforce Services' (DWS's) funding for incentives, and the majority of its budget, is federal funding. The department reports that their incentives were from federal funds. However, the funds appear as general funds (Charge Fund 100) in the FINET system.
- Because the Department of Health (DOH) receives significant federal funding, it is also likely that its incentives are partially federally-funded, but are coded under Fund 100.
- The Department of Transportation's (UDOT's) incentives are from the Transportation Fund (Charge Fund 280).
- The School and Institutional Trust Lands Administration (SITLA) is funded from the Land Grant Management Fund (Charge Fund 530). SITLA is responsible for generating revenue from the lands it manages and the incentives it grants comes out of that revenue.

Most incentives are general funds. But four agencies use other funding sources (federal, transportation and land grant funds).

Incentive Amounts Vary Across State Agencies

Next, Figure 2 provides data on the number of employees receiving incentives in fiscal year 2003 and the average incentive received. Note that the figure only lists the agencies granting incentives.

Figure 2 shows that the percent of state employees receiving incentives and the average cash incentive varies across agencies.

Figure 2. The Average Cash Incentive For 25 State Agencies Granting Cash Incentives in Fiscal Year 2003 Was \$399. The average drops to \$379 when SITLA management is removed. Note this figure is sorted by average cash incentive in descending order.

State Agency	Employees Receiving Incentives	Average Employees in FY 03 ¹	% Receiving of Yr. Ave. Employees ²	Average Cash Incentive ³
SITLA Management ⁴	8	8	100.0%	\$ 18,917
SITLA Other Empl. ⁴	53	58	91.0	2,582
Attorney General	17	364	4.7	2,031
State Auditor	24	42	56.8	1,449
Public Service Comm.	1	15	6.7	1,000
Board of Education	71	639	11.1	716
Comm. & Econ. Dev.	216	266	81.3	695
Dept. of HR Mgmt.	38	38	100.0	609
Utah National Guard	85	206	41.3	548
Human Services	4	4,601	0.1	533
Dept. of Agriculture	169	207	81.6	475
Dept. of Health	1,015	1,197	84.8	461
Governor's Office	40	106	37.8	441
Dept. of Transportation	954	1,175	53.7	414
Dept. of Commerce	90	245	36.7	394
Dept. of Workforce Sv.	1,997	1,930	103.5	392
Natural Resources	533	1,093	48.8	315
Administrative Services	494	723	68.3	280
Tax Commission	459	804	57.1	252
Environmental Quality	235	434	54.1	210
Dept. of Corrections	726	2,161	33.6	194
Labor Commission	120	119	101.1	163
Navajo Trust	4	6	66.7	163
Dept. of Public Safety	143	1,147	12.5	121
Alcoholic Bev. Control	235	240	98.1	102
Financial Institutions	6	47	12.8	50
Total and Averages	7,737	18,460	41.9%	\$399
Average Incentive Excluding SITLA Management				\$379

1. Employee count was averaged for four pay periods: July 19, 2002; October 25, 2002; February 14, 2003; and May 23, 2003.
2. Percentages may exceed 100 due to employee turnover.
3. Average is of those **receiving** incentives as opposed to an average of **all** agency employees.
4. We reviewed all 66 employees at SITLA. Because members of upper management are exempt from DHRM incentives rule, we present their incentives separate from other SITLA employees.

Of those receiving incentives for FY 03, the average incentive was \$379.

Average Incentive Was Under \$400

Figure 2 summarizes the average cash incentive of \$399 given for the 25 agencies granting any incentives in fiscal year 2003. Note that of the 25 agencies in Figure 2, one agency is unique: School and Institutional Trust Lands Administration (SITLA) is a quasi-state agency which is not subject to the same incentives rules as other state agencies listed, but does utilize the FINET system. While state rules limit incentives to \$8,000 per employee per year, there are incentives at SITLA as high as \$25,000. Therefore, our analysis in Figure 2 also includes an adjustment for SITLA management (exempt from DHRM incentive rules), in order to show that the average cash incentive drops by \$20, to \$379 in fiscal year 2003. This \$379 is an average of those receiving incentives, not an average of all employees. (Note: Further discussion on SITLA's incentives is contained in Chapter III and Appendix D.)

Incentives Are Small Percentage of State Payroll

When taken as a percent of the entire state's annual payroll, the incentives granted in fiscal year 2003 are small. Based on annualized salaries shown on pay period ending July 19, 2002, we estimate the total payroll of the 43 agencies shown in Figure 1 to be over \$700 million. Thus, the fiscal year 2003 incentives of \$3.1 million amount to 0.4 percent of total payroll.

FY 03 incentives as a percent of total state payroll were small, amounting to only 0.4%.

Some years ago, the Department of Human Resource Management (DHRM) suggested that agencies grant incentives that would total no more than 1 percent of their agency payroll. While this rule no longer exists, it appears that state agencies as a whole are well under the 1 percent guideline once used.

Some Agencies Grant Incentives to Most Employees

Figure 2 also shows that many agencies grant incentives to a majority of their employees. In our 2003 review, we expressed concern that granting incentives to a wide number of employees may show that insufficient criteria is used to determine which employees had exceptional work. It also illustrates the inconsistent use of incentives among state agencies. Our sample results discussed in the next chapter further

confirms this inconsistency and also shows that some agencies are still granting incentives to a high percentage of employees.

Some Agencies Increased Incentive Spending Despite Budget Cutbacks

Referring back to our initial summary figure (Figure 1), note that the three-year totals per agency show that agency treatment of incentives varied. While several agencies decreased incentive spending, there were nine agencies that increased in one or both years from fiscal year 2001 to 2003. These nine agencies are shown in Figure 3.

Nine agencies have increased incentive spending since FY 01.

Figure 3. In Fiscal Year 2003, Nine of 43 State Agencies Increased Cash Incentives From Either Fiscal Year 2002 or 2001 or Both. Note there were 18 of the 43 agencies that gave no cash incentives for fiscal year 2003.

State Agency	Increase From Fiscal Year 02?	Increase From Fiscal Year 01?
Department of Workforce Services	No	Yes
Department of Health	No	Yes
School & Inst. Trust Lands	Yes	Yes
Department of Natural Resources	No	Yes
Department of Agriculture	Yes	No
State Auditor	Yes	No
Attorney General	Yes	No
Alcoholic Beverage Control	No	Yes
Labor Commission	Yes	No

We sampled nine agencies in order to provide more detail on cash incentives and leave incentives. The sample is discussed in Chapter III and IV.

Sampling Gives Closer Review

Although Figure 3 and preceding figures illustrate some of the aggregate activity with statewide cash incentives, a more accurate review of incentive activity requires a look at each individual agency. However, based on what we learned in our audit survey phase, a close review of all

state agencies would require a significant (and perhaps unreasonable) amount of audit hours. Therefore, we felt it appropriate to conduct a sample of the agencies with the largest incentive totals. This sample and findings are discussed next in Chapter III (cash incentives) and Chapter IV (leave incentives in lieu of cash).

Chapter III

Agency Cash Incentive Practices Are Inconsistent

To further review the cash incentives summarized in Chapter II, we conducted detailed reviews of incentives received by employees in nine state agencies. Agencies were chosen according to dollar incentive totals so that our sample would capture the largest amount of incentives possible. We evaluated cash incentives based on criteria included in DHRM's incentive rule, and found

- some incentives were not based on outstanding performance,
- most incentive amounts were within spending limits, and
- documentation varied widely among agencies.

Sample of Nine Agencies Encompassed Most Incentives

We sampled nine state agencies in order to provide more detail on the incentives and to comment more fully on incentives policy adherence, documentation and justification and frequency. We sampled from the eight agencies with the highest incentives spending plus the agency with the most administrative leave granted—the Department of Human Services. Overall, our sample included nine state agencies which account for 82 percent of the cash incentives given. This sample includes some of the largest state agencies, such as Workforce Services, Transportation, Health and Corrections. The agencies' incentive spending for fiscal year 2003 is shown in Figure 4, as well as each agency's overall contribution to total state incentive spending.

Our sample of cash incentives in nine agencies showed some were not based on outstanding performance and that documentation varied widely.

Our nine agency sample accounted for 82% of the cash incentives granted in FY 03. Our sample included many of the large state agencies.

We randomly chose 50 to 100 employees in the nine agencies and reviewed the incentive documentation.

We also reviewed incentive leave (in lieu of cash) which is discussed in Chapter IV.

Figure 4. We Sampled Nine State Agencies Which Account for 82 Percent of Cash Incentives Granted in Fiscal Year 2003.

(Note: As shown in Chapter II Figure 1, there are approximately 43 different agencies included in the statewide total of \$3.1 million.)

Top Agencies' Incentive Spending ¹	FY 03 Cash Incentives	Percent State-wide Total	Cumul. Percent State-wide
A. Workforce Services	\$782,312	25.4%	25.4%
B. Department of Health	467,662	15.2	40.5
C. Department of Transportation	394,911	12.8	53.3
D. School & Institutional Trust Lands	288,185	9.3	62.7
E. Department of Natural Resources	168,132	5.5	68.1
F. Community & Economic Dev.	150,100	4.9	73.0
G. Department of Corrections	140,860	4.6	77.6
H. Dept. of Administrative Services	138,550	4.5	82.1
I. Department of Human Services	2,133	0.07	82.1
TOTAL of Eight Agencies	\$2,532,805	82.1%	
TOTAL — Statewide	\$3,083,644		

1. Even though Human Services only granted \$2,133 incentives (due to incentives being suspended), we added them as a ninth agency in order to sample administrative leave. Administrative leave used in lieu of cash for incentives is discussed in Chapter IV.

In each of the agencies in Figure 4, we randomly selected 50 or 100 employees and reviewed the cash incentives they received. We also identified the employees with the ten highest incentive totals for the year and reviewed their awards. Besides the cash incentives, we reviewed the administrative leave granted to these same individuals. A synopsis of our sampling work is shown in Figure 5.

Figure 5. Sampling and Review of 740 Employees Occurred in Nine Different State Agencies. Because we sampled employees rather than incentives, there are employees with one incentive, no incentives, or multiple incentives. (Note the abbreviations for each agency which will be used in the remainder of the report.)

Sampled Agencies	Random Sample Size	Highest Incentives Sampled
A. Workforce Services (DWS)	100	10
B. Department of Health (DOH)	100	10
C. Department of Transportation (UDOT)	100	10
D. School & Institutional Trust Lands (SILTA) ¹	58	8
E. Department of Natural Resources (DNR)	50	10
F. Community & Economic Dev. (DCED)	50	10
G. Department of Corrections (UDOC)	50	10
H. Dept. of Administrative Services (DAS)	50	10
I. Department of Human Services (DHS)	100	4
Totals	658	82
Total Employees Reviewed		740

1. Since SITLA only had 66 employees, we reviewed them all. The eight highest incentives are the senior management team whose incentives are governed by board policy. Incentives for remaining employees are subject to DHRM rule. (See also Appendix D.)

Including our review of the ten highest cash incentives from each agency, we reviewed 740 employees.

More detailed information on the sampled agencies is contained in the appendices.

While general findings in these agencies are discussed in the remainder of the chapter, further sampling detail is found in the report appendices. There are nine separate appendices (Appendix A through Appendix I) which contain summary information about each of the sampled agencies, in four sections:

- Incentives policies,
- Random sample of 100 (or 50) employees' incentives,
- Sample of employees with high-dollar incentives, and
- Other administrative (OA) leave received by random sample.

Also, Chapter IV contains our general discussion of administrative leave and the sampled agencies' incentive leave granted in lieu of cash.

Sample Results Show Inconsistent Incentive Practices Among State Agencies

Some incentives met expectations for outstanding performance and were within DHRM dollar limits, but others showed concern.

Our review of cash incentive awards in nine agencies showed a wide range of practices. State incentives rules which are established by DHRM provide some guidance, however much is left to agency discretion under their own policies. In many cases the incentives we reviewed met expectations because they were based on outstanding work performance, were within established dollar limits, and were clearly documented with appropriate justification and approval. However, other cash awards raised concerns. In particular, some incentives do not appear to be based on outstanding work performance. Also, we found a few instances where incentive amounts exceeded allowable limits. Finally, documentation varied among agencies.

State Rules Impose Minimal Requirements

DHRM compensation rule R477-6-5 "Incentive Awards" imposes some requirements on agencies who give cash incentive awards. Figure 6 shows the rule in effect for the fiscal year 2003 cash incentives reviewed for this audit report. As discussed later in this section, this rule does not apply to SITLA.

DHRM rules state incentives may be rewarded for workable cost savings or “other worthy acts.”

We reviewed whether incentives:

- met DHRM performance criteria,
- were within dollar limits of \$8,000 or less, and
- were documented, evaluated and approved.

Figure 6. DHRM Rule 477-6.5 Incentive Awards, Fiscal Year 2003. The amended rule for fiscal year 2004 and agency policy changes will be discussed in Chapter V.

Only agencies with written and published incentive award policies may reward employees with cash incentive awards, and non-cash incentive awards. Policies shall be consistent with standards established in these rules and with Department of Administrative Services, Division of Finance rules and procedures.

(1) Cash Incentive Awards

Agencies may reward employees or groups of employees who propose workable cost saving measures and other worthy acts with a cash incentive award.

- (a) Individual awards shall not exceed \$4,000 per occurrence and \$8,000 in a fiscal year.
- (b) Awards of \$100 or more must be documented, evaluated, and approved by the agency. A copy shall also be maintained in the agency's individual employee file.

We found all of the agencies we sampled had incentive policies as required by this rule. Our review of the cash incentives in our sample focused on three main requirements of the rule:

- Are awards based on cost saving ideas or other worthy acts?
- Are incentive amounts within prescribed limits?
- Are awards adequately documented, evaluated and approved?

Because we sampled fiscal year 2003 incentives, we used the rule and policies in effect at that time to evaluate them. However, DHRM changed the rule somewhat for fiscal year 2004. Updates of the agencies' policies to reflect recent DHRM rule changes vary. The rule changes and agency policy changes are discussed, in detail, in Chapter V.

SITLA Incentives Exempt From DHRM Rules. In Chapter II we showed that SITLA had incentives as high as \$25,000. A small number of SITLA upper management is not subject to the state Personnel Management Act which is the governing source for DHRM rules, including the spending limit of \$8,000 per employee, per year. SITLA's incentives for upper management are governed by different personnel rules under the SITLA Management Act which reads,

(iii) the administration shall comply with Title 67, Chapter 19, Utah State Personnel Management Act, except as follows:

(C) the board may create an annual incentive and bonus plan for the director and other administration employees designated by the board, based upon the attainment of financial performance goals and other measurable criteria defined and budgeted in advance by the board... (see *Utah Code* 53C-1-201-(3)(a)).

SITLA had cash incentives over the DHRM limit; but, the upper management team at SITLA is not subject to state personnel law. Refer to Appendix D for details.

As will be discussed later in the chapter, the SITLA board authorized substantial incentives to eight upper management members for meeting the financial performance goals and for other measurable goals. Incentives for meeting the financial performance goals were also granted to most of the remaining SITLA employees. These incentives for employees other than upper management were subject to DHRM limits. More detail is given later in the chapter, as well as in Appendix D.

Some Incentives Are Not Based On Outstanding Performance

Because the administration of incentive programs varies from one agency to another, it is difficult to find a common measuring stick to determine justification for incentives. So, to evaluate some of the unique incentive programs in agencies, we used the broad categories shown in the DHRM rules, which were in effect for our sample. Rule 477-6-5(1) states that:

Agencies may reward employees or groups of employees who propose **workable cost saving measures** and **other worthy acts** with a cash incentive award (emphasis added).

In some instances we were unable to evaluate whether this criteria was met because documentation was lacking. Inadequate documentation is discussed later. This section includes three types of concerns with the awards we reviewed: incentives not based on work, peer-to-peer programs, and “blanket” incentives (incentives which appear to be given to all, or a majority of employees without performance justifications).

Some Cash Incentives Not Based on Work. Using the general DHRM standards cited above, we found examples that do not appear to

Programs such as sick leave incentives and retirement incentives are not based on excelled performance or cost savings attributable to the employee.

meet the expectation that the employees work performance resulted in either “workable cost savings” or “other worthy acts.” Two examples include the sick leave incentive program and retirement incentives; neither incentive is based on work achievements, or cost savings attributable to the employees receiving the incentives.

- **Sick Leave Incentive Program.** We are aware that a few agencies offer (or did offer) a Sick Leave Incentive program wherein employees could get \$50 per quarter and an additional \$50 for the year (for a maximum of \$250) for not using sick leave. DHRM argues that this incentive can be a cost-saving measure for agencies. However, in our view, the employee does not seem to be performing a “worthy act” in the context of job performance. Furthermore, an employee is already rewarded for not using sick leave through the converted sick leave benefit established by the Legislature “as an incentive to reduce sick leave abuse” (see **Utah Code 67-19-14(1)**).
- **Retirement Incentives.** Another agency gave incentives to 11 employees who were working beyond their qualified retirement, in order to entice them to retire, thus freeing up personnel funds. On average, these employees were given about \$7,270 (ranging from \$2,000 and \$8,000 each). In our opinion, this retirement incentive does not meet the standards set-up in DHRM rule even though the department argued it was a cost-savings measure. While there may have been cost savings, they were not attributable to the individuals receiving the incentive; there were no “worthy acts” performed to receive the incentives. Overall, we question whether the payments should have been classified as incentives at all.

DHRM should review the validity of some programs and state whether factors other than job performance qualify for cash incentive awards.

In our view, DHRM should review the validity of such programs and specifically address them in their rule. We do not think these types of cash incentives fit within the DHRM rule because they are not based on an employee’s work performance. However, agencies that used the sick leave and retirement incentives believed they resulted in increased productivity or reduced costs. It was beyond the scope of this audit to evaluate the effectiveness of these type of programs, but we think DHRM needs to address this use of the cash incentive program in their rules. At the least, the rule should clearly state whether factors other than job performance qualify for cash incentive awards.

We found peer-to-peer awards which are susceptible to favoritism, just as was found in the 2003 review of Tax Commission incentives.

Some Peer-to-Peer and Small Dollar Incentives Raise Concerns.

Among agencies, it is popular to allow the granting of small cash incentives at the discretion of fellow employees (peer-to-peer) or supervisors. In our earlier review of Tax Commission incentive awards, we expressed the concern that these type of awards were susceptible to favoritism and often seemed to be given for completing normal job expectations. Our opinion is that awards need to be for superior performance and that documentation should show proper justification.

- **DWS Peer Award Program.** Under a program that was in effect for our audit period, DWS gave each employee two certificates for \$25 during the fiscal year that they could give to another employee for some sort of extraordinary service. Employees were able to award the certificate anytime throughout the year, but they were supposed to be approved by a supervisor. DWS officials told us that after the Tax Commission incentive audit was released in June 2003, they reviewed their own peer award program and decided to terminate it. They felt the program was not adequately controlled because awards often were not appropriately documented and the reasons for giving them out were too subjective.
- **Other Small Dollar Award Programs.** We found that a number of agencies allowed supervisors to make small dollar incentive awards. Commonly, a co-worker will nominate another employee for a small-dollar award and the supervisor grants the award if they feel it is justified. However, our sample revealed that available documentation frequently did not show that awards were for outstanding performance.

Figure 7 shows examples of concerning small dollar incentives from peer-to-peer and other programs, from our sampled agencies.

Inadequate documentation, such as “All that you do. Great Job!” does not show whether an employee was justified in receiving an incentive.

Figure 7. Sample Revealed Some Inadequate Justification for Granting Incentive Awards. Examples show either employees getting awards for performing routine job duties and/or inadequate documentation to determine whether the incentive was justified. We acknowledge that examples under \$100 did not require documentation based on DHRM rules at the time.

Agency	Dollar Amount	Justification For Incentive Award
DOH	\$200	“Working so hard on getting all the Service Award certificates done for our division.”
DOH	\$200	“All that you do. Great job!”
DOH	\$200	“Spending an extra hour with a web prep workshop attendee to explain the lecture sections she missed.”
DOH	\$100	“Your hard work and effort to make things run smoother.”
DWS ¹	\$25	“all your help”
DWS	\$75	“all you do!!”
DWS	\$100	“your help in getting our IT stuff working”
DWS	\$25	“just general freakin’ pleasantness”
UDOT	\$50	two \$25 “Safety Awards” were signed and awarded with nothing written on the “Comments” line
DNR	\$100 & 8 Hrs. Leave	“I would like to thank you for your efforts to make this a better place to work...In addition, I am granting you eight hours of administrative leave....” (Based on employees hourly rate, leave was valued at \$86.)
DAS	\$20	Staffing research center during section lunch.
DAS	\$50	“Division meeting preparation”
DAS	\$50	“Great reliable job.”
DAS	\$50	“Thanks.”

1. These four examples from DWS are from their now defunct “Peer Award” program.

DWS recognized that their peer-to-peer program lacked control and discontinued it.

Figure 7 serves to illustrate the concept that proper documentation is essential in order for an agency to control, review and justify the use of an incentive program. DWS recognized this fact when they discontinued their peer-to-peer incentive program. Overall, we believe agencies need to

ensure that all incentive awards being granted are adequately documented in order to control, review, and justify the use of these incentives.

Blanket Incentives Are a Concern. In addition to some of the concerning examples in Figure 7, we also reiterate that we consider “blanket” incentives (incentives offered to nearly every employee in a division, office, bureau, etc.) to be questionable. We found evidence that blanket incentives are being given in state agencies. For example:

“Blanket” incentives—where the majority of employees are given an incentive at one time—can be potentially concerning.

For example, one division gave 53 employees \$100 at once.

- DWS had one division which split funds in the incentive budget equally among all division members.
- DNR division awarded 53 individuals \$100 incentive awards on a memo that stated no justification was required. (This example is discussed later in the documentation section.)
- Several other agencies gave incentives to a high number of employees, based on the number of employees receiving incentives taken as a percent of the average employee count for the fiscal year. (Note: Refer to Figure 2 in Chapter II for the summary of agency employees receiving incentives.) However, we believe group or team incentives can be granted, if they are based on exceptional effort in meeting specified team goals.

These types of blanket incentive practices should be reviewed by all agencies to determine if employees are receiving incentives based on cost savings proposed or other exceptional effort. In Chapter V, we discuss how agencies are beginning to review incentive practices beginning with rule changes made by DHRM in July 2003, following our June 2003 audit review.

Most Incentive Amounts Were Within Spending Limit

Except for SITLA, of the agencies we reviewed, there were very few instances of incentive spending over the DHRM proscribed limit of \$8,000 per person, per fiscal year. In those few instances, the incentive payments seemed to be outside the parameters of a performance incentive program. But agencies reported that the awards were granted to accomplish specific purposes, such as departmental cost savings.

We only found two instances where incentives were over the proscribed limit of \$8,000 per person.

SITLA management received incentives ranging from \$13,334 to \$25,000. These incentives are granted by their board, as allowed in statute.

In fiscal year 2003 we identified only two incentives that exceeded the limit: Two employees at UDOC each received \$8,050. Each of the employees received \$50 for not using any sick leave for a three-month period and \$8,000 as a retirement inducement.

In addition to these amounts exceeding allowable limits, the awards seem to be outside the parameters of a performance incentive program because they are not based on outstanding performance.

SITLA Incentive Amounts Are Allowed by Statute. As mentioned, the large incentives granted by the SITLA Board are allowed by statute. The board granted eight managers incentive awards which were over \$8,000 per employee, per year, but they are exempt from this limit. In fact, these awards ranged from \$13,334 to \$25,000 for fiscal year 2003. These awards were granted under policies established by the agency's board as required by statute:

- First, the board allows for incentives for meeting revenue goals which the board sets (revenue being generated from state lands). All SITLA employees are eligible for these revenue incentives.
- Second, the board allows incentives for meeting specific non-monetary goals which the board sets. Only the few members of upper management are eligible for these incentives.

We asked the SITLA director and board chairman about the Legislature's reaction to the high incentives. Both responded that the Legislature is aware of the incentives; the Legislature intends that SITLA be treated like a business. They said further that these types of bonuses are right in line with what the private sector does.

For fiscal year 2003, the Legislature approved the board's request for up to \$150,000 to be given for management incentives: \$75,000 for meeting revenue goals and \$75,000 for meeting other measurable non-monetary goals. The fiscal year 2003 actual expenditure for the management incentives was \$151,334.

Additionally, SITLA gave incentives totaling \$136,851 to most of the remaining employees. The majority of these incentives were for meeting the revenue goals. So, in total, SITLA spent \$288,185 for incentives in fiscal year 2003 (as previously reported in Chapter II, Figure 1.)

For the management group and other employees combined, most of the incentives are given for SITLA meeting the revenue goals. The revenue goals, set by the board each year, have been achieved every year since 1998 (the year the policy was enacted).

Documented Justification for Incentives Varies by Agency

Our review also found that agency documentation varies for cash incentives. We note that it is not the documentation per se which is important; rather, without adequate documentation, it is difficult to determine the justification for the incentive. However, the DHRM rule provides little guidance about required documentation. Some small dollar awards may have been structured to avoid documentation. In general, the higher-dollar incentives are better documented with incentive justification.

Documentation for incentives varies widely. The level of documentation is not specified in DHRM rules.

Level of Documentation Not Specified in Rules. In order to ensure that incentive programs are being administered properly, adequate documentation must be maintained on awards that have been granted. As mentioned, DHRM rules state that only agencies with written and published incentive award policies may reward employees with cash incentives and that policies must be consistent with DHRM rules and with the Division of Finance rules and procedures. DHRM rules pertaining to the documentation of incentive awards in effect for the fiscal year 2003 awards we reviewed stated:

Awards of \$100 or more must be **documented, evaluated, and approved** by the agency. A copy shall also be maintained in the agency's individual employee file (emphasis added).

Incentives under \$100 used to be exempt from documentation. For FY 04, DHRM now requires all incentives to be documented.

In addition to exempting awards under \$100, our concern is that in the rules there is no mention of the type of detail required in the documentation process, or any documentation guidelines. This results in some agencies allowing incentive awards for what appears to be the accomplishment of routine job assignments as was discussed earlier in our section on peer-to-peer and small dollar awards.

Awards May Have Been Structured to Avoid Documentation. As noted above, the former DHRM rule exempted awards under \$100 from documentation requirements. While we cannot be certain, it appears that some award amounts were set in order to avoid having to justify them.

It appears some awards may have been structured to avoid being documented. Some awards were split, others were given in amounts of \$99, or even \$99.99.

This section discusses some concerns with the fiscal year 2003 awards we reviewed. However, as discussed in Chapter V, DHRM has since changed the rule to require documentation on awards of any amount.

For example, earlier we noted that a division director at DNR granted \$100 incentives to 53 different employees. On the memorandum listing the names of these 53 recipients—which was forwarded to DNR Human Resources—the director stated that “approval from DNR is not required for this class of awards.” This is incorrect because DHRM rules, at the time, required “documentation” for incentive awards of \$100 and above. Regardless of any technicalities, we question a lack of documentation for an incentive which, when all is told, totaled \$5,300 for the group of 53 employees. When we discussed this with the agency, the DNR Human Resource Director told us that he had already informed the division director that the incentives were not appropriately documented prior to the beginning of the audit.

Also in DNR, we found that eight of 50 randomly sampled employees received incentives in the amount of \$99. Additionally, one employee received an incentive for \$99.99. Since no documentation was required on these amounts under \$100, we could determine neither the justification, nor the reason for the unusual amounts.

Furthermore, there were three instances of multiple small incentive awards being granted in the same pay period to the same employee. If combined, the awards would have required documentation, but as structured they did not. Because we were not given original documentation for these awards, we were unable to verify whether the awards were for separate events.

Similarly, when multiple small awards were given throughout the year, documentation requirements could have been avoided. For example, one sample employee received six small cash incentives awards for a total of \$369 during the year. Although none of the individual awards met the documentation amount threshold, the total far exceeded the limit.

High dollar incentives were documented better. We could see justification on 93.5% of the incentives reviewed.

Explanation Could be Seen on High Dollar Incentives. Of the high dollar incentives we reviewed for 78 employees, we found what we determined to be adequate explanation for 70 of them. In terms of dollars, there were \$343,427 worth of incentives and \$321,000 (or

93.5 percent) had explanation to show cost savings or excellent effort. Examples of the few with inadequate explanation include:

- \$1,000 award at UDOT: Management requested the incentive through an email, without explanation.
- \$1,000 award at DOH: No documentation.
- \$3,000 award at WFS: The dollar value was shown on the employee's time and attendance report with no explanation.
- \$1,000 award at WFS: An email stated "I am giving a \$ Directors Award to [employee]. Please process this award as soon as possible."

From this sample, it appears that higher dollar incentives are more likely to have the explanations documented than the smaller dollar incentives we reviewed.

Despite concerns, there were some well documented incentives. In Chapter V, we discuss agency best practices for documentation.

Some Incentives Had Detailed Documentation. Despite the above documentation concerns, there were still many incentives we reviewed which were documented enough for us to see the proposed cost savings, exceptional effort, or other justification. For example, UDOT has a standard form that requires a description of the specific reason the employee deserves the incentive. This discussion and some specific examples of good documentation policy can be found in Chapter V, which concludes with our overall report recommendations. First, we discuss our findings related to incentive leave in Chapter IV.

Chapter IV

Leave Incentives Were Granted But Are More Difficult to Track

Agencies do grant leave incentives (time off in lieu of cash), but they appear much less frequent than cash incentives.

In addition to cash incentives, agencies may also grant administrative leave (time off with pay) as a performance incentive. It appears that leave incentives are awarded much less frequently than cash incentives. However, weaknesses in the tracking of leave incentives prevent us from providing reliable statewide information about the amount or trend over time of such incentives. We used our sample of employees in nine agencies to review leave incentive awards and compare them with agency policies and state rules. Our analysis showed similar issues with leave incentives as was described earlier with cash incentives, such as leave being inconsistent among agencies and some documentation concerns which made it difficult to determine whether the leave incentives were justified.

Summary Statewide Information on Leave Incentives Is Not Available

Statewide data on leave incentives is not available because incentive leave appears in the catchall category Other Administrative (OA) with several other types of leave.

We cannot give a statewide accounting of leave incentives because the payroll system has tracked such awards under a broader category of “other administrative” (OA) leave. In DHRM rule, administrative leave is defined as: “Leave with pay granted to an employee at management discretion that is not charged against the employee’s leave accounts.” In addition to leave granted as an incentive, the OA category includes many other types of leave including holiday leave (granted by the Governor each December) and disciplinary leave. Furthermore, leave categories such as funeral leave and military leave have frequently been mis-coded as OA leave.

Current DHRM rules provide for a variety of leave types for state employees either with or without pay. Leave types that provide time off with pay include holiday, annual, sick, military, funeral, jury, disaster relief volunteer, organ donor, and administrative leave. Of all these leave types, we reviewed administrative leave because it includes time-off with pay awarded as a performance incentive in lieu of cash.

However, as shown in Figure 8, administrative leave is a catchall category that includes time off granted for a variety of other reasons as well.

Figure 8. DHRM Rule 477-7-7(1) for Fiscal Year 2003. Leave granted from this list is coded as “OA” (other administrative) on state employees’ time sheets. Note that OA includes incentive awards in lieu of cash.

DHRM rule allows for administrative leave to be granted for . . . “incentive awards in lieu of cash.”

Administrative leave may be granted consistent with agency policy for the following reasons:

- (a) corrective action;
- (b) personal decision-making prior to discipline;
- (c) suspension with pay—during removal from job site—pending hearing on charges;
- (d) during management decision situations that benefit the organization;
- (e) incentive awards in lieu of cash;**
- (f) when no work is available due to unavoidable conditions or influences;
- (g) removal from adverse or hostile work environment situations pending management corrective action;
- (h) educational assistance;
- (l) employee assistance and fitness for duty evaluations.

We obtained leave information from our sample of nine agencies for more detailed information about incentive leave.

Sample Review Began With Download of OA Leave. Because incentive leave was recorded to the OA category, we started our review with a download from the state’s leave history database of all OA leave for all agencies during fiscal year 2003. However, because the OA category includes leave granted for many reasons, we could not determine whether OA leave may have been granted as an incentive without reviewing source documents. Furthermore, due to mis-coding, we discovered that the OA leave category sometimes included military and funeral leave that should have been in a different category. Because of these problems we are unable to provide summary statewide data on leave incentives. Therefore, we relied on our sample of employees in nine agencies described in Chapter III to review leave incentive awards.

Sample Shows Leave Incentive Use Varies Among State Agencies

Since we were reviewing sample employee files for cash incentive documentation, we used the same sample to evaluate leave incentives. We discovered that most OA leave was granted for reasons other than as a performance incentive. After deducting OA leave that was clearly not a leave incentive, we reviewed the documentation of the remaining agency granted OA leave. Some of that remaining OA was well documented as a leave incentive, however missing or inadequate documentation made it difficult to identify all leave incentives. Even after reviewing employee time sheets to get the details and break out the type of leave that was reported, we sometimes could not determine the reason for some of the administrative leave.

Most OA Leave Is Not Awarded As a Performance Incentive

We reviewed employee files and leave records of sample employees in nine agencies to break down the category of administrative leave. There were a variety of explanations for the use of administrative leave reported in the time sheets. Initially, we wanted to screen out OA leave that was clearly not awarded as an incentive. For example, we wanted to exclude leave that was not really awarded at the agency's discretion, but was granted by state rules or policy. The three main reasons for OA leave that we screened out were as follows:

1. mis-coded funeral or military leave,
2. Governor's holiday leave and
3. disciplinary leave.

Funeral and Military Leave Were Mis-coded Under OA. We found many instances of employees who took these two types of leave, but had it coded as OA leave on their time sheets. For funeral leave, state rules allow that:

Employees may receive a maximum of twenty-four hours funeral leave per occurrence with pay, at management's discretion, to attend the funeral of a member of the immediate family.

To get to the incentive leave, we screened out from "OA," three major types of leave:

- mis-coded funeral and military leave,
 - Governor's holiday leave, and
 - disciplinary leave.
-

For military leave, state rules say that “one day of military leave is the equivalent to the employee’s normal workday but not to exceed eight hours.” The rules state further that:

Employees who are members of the National Guard or Military Reserves are entitled to military leave not to exceed 15 days per calendar year without loss of pay, annual leave or sick leave.

Governor Grants Four Hours of Holiday Leave. For the past several years, the Governor has been granting employees an additional four hours of holiday leave that can be taken in December. Most of the employees we reviewed in all nine agencies received this type of leave which is recorded under OA.

Disciplinary Leave Granted at Discretion of Management. State rules allow for an employee to be placed on paid administrative leave pending disciplinary decision or action. DHRM rules for fiscal year 2003 (those in effect during our sampling period) allow administrative leave for:

corrective action; personal decision-making prior to discipline; suspension with pay—during removal from job site—pending hearing on charges; during management decision situations that benefit the organization.

Figure 9 shows the number of hours of OA leave for our sample in each of these three categories as well as the remaining agency granted OA leave.

Figure 9 shows about 56% of the OA leave is not granted as incentive leave.

Figure 9. OA Leave Granted to Sampled Employees by Nine Agencies in Fiscal Year 2003.

Reasons For Granting OA	OA Hours	% Total
Funeral Leave (mis-coded as OA leave)	734	11.7%
Military Leave (mis-coded as OA leave)	402	6.4%
Governor's Holiday Leave	2,013	18.1%
Disciplinary Leave	344	5.5%
Other Agency Granted Leave (includes incentive leave) ¹	2,759	44.1%
Total	6,252	100.0%

1. The breakdown of "Other Agency Granted Leave" (2,759 OA hours) is presented in Figure 10.

The data in Figure 9 shows about 56 percent of the OA leave in our sample was clearly not granted as a performance incentive. The next section discusses the varied ways in which remaining agency granted administrative leave is used.

Incentive Leave Is Interpreted and Applied Inconsistently

After screening out mis-coded, governor's holiday leave, and disciplinary leave, we found there are many reasons that agencies granted the remaining administrative leave. Some of the leave was clearly as a leave incentive but other leave was more like a general benefit that was granted to all employees. Other times the agency may have granted OA leave "during a management decision situations that benefit the organization."

We found it difficult to categorize the OA leave because the available documentation did not have enough detail. State rule requires that "Administrative leave taken must be documented in the employee's leave record." Most of the time we were able to categorize the type of OA leave granted although the rationale for the grant was often vague. In a few cases we found that the only thing documented was that administrative leave was taken without any indication of the reason.

Not all agencies have an incentive policy that addresses administrative leave in significant detail. Consequently, agencies follow the state policy

Some OA leave was challenging to categorize due to poor documentation.

according to their own understanding and knowledge. In the nine agencies reviewed, there were a variety of unique uses and applications of administrative leave.

Figure 10 shows the types of leave we found in our sample of employees. Note that we present the categories in Figure 10 under two broad divisions: “Possible Incentives” and “Apparent Non-incentives.” A brief discussion of each of the leave types then follows the figure. (For detail shown by agency, please refer to the appendices.)

Figure 10. Adjusted OA Leave Granted by Nine Agencies in Fiscal Year 2003 Sample. This figure shows the total OA leave granted after removing mis-coded funeral and military leave, Governors holiday leave, and disciplinary leave. Note that the categories are divided into possible incentives and apparent non-incentives.

We found types of leave that were “possible” incentives and some apparent non-incentives.

Reasons for Granting OA Leave	OA Hours	Recipients	Hours Per Recipient
Possible Incentives:			
Incentive in lieu of cash	1,123	104	10.8
Retirement Incentive	344	1	344.0
Year End Party	140	37	3.8
Unknown	295	38	7.8
Apparent Non-incentives:			
Health Exam	229	67	3.4
Agency Holiday Leave	353	89	4.0
Training	185	13	14.2
Miscellaneous	90	4	22.5
Total Hours	2,759		

We found 295 hours where the reason for the leave could not be determined due to lack of documentation.

The “Unknown” OA hours shown in Figure 10 show one of the reasons why it was difficult for us to determine incentive leave used in state agencies. As we sampled, we found 295 hours where we could not determine the reason the OA was granted. This lack of documentation is

unacceptable regardless of whether the leave was granted as an incentive or otherwise.

Incentive Leave Was Granted in All Sampled Agencies

As shown earlier in Figure 8, DHRM rule allows agencies to grant incentive leave hours in lieu of cash. Although the rule does not specifically state such, the leave hours should be awarded based on exceptional effort. The hours should also be documented sufficient enough to show justification. This section contains our evaluation of incentive hours based on this criteria.

All nine sample agencies granted some incentive leave, but most was from DHS and DWS.

Although each sampled agency recorded some incentive leave hours, 922 of the 1,123 hours (or 82 percent) came from two agencies: The Department of Workforce Services (DWS) and the Department of Human Services (DHS). This section discusses incentive leave at DWS, DHS and the remaining agencies.

Incentive Leave at DWS Lacked Controls. In the sample, DWS granted 436 hours to 51 employees for a variety of reasons. Most awards were issued by a certificate which was supposed to list the reason for granting the award. Unfortunately, as with the cash incentives, many of the leave awards had scant justification. The leave awards may have very well been earned, but documentation provided to us did not explain the exceptional effort for some of the awards.

Some incentive leave at DWS lacked control. For example, some certificates did not have names or expiration dates.

Also, it seemed that controls were deficient for the awards. For example, some of the awards were distributed without restrictions as to when the awards expired, when they could be used, whether they could be consolidated with other leave awards, or whether they could be gifted away and under what conditions. Also, some certificates did not always have a name on them, which could have allowed trading among employees. We saw that the awards were frequently saved up and turned in collectively to the payroll officer at different times of the year. Sometimes the awards were split up and used part at one time and part at another time. Finally, the award certificates may or may not have had expiration dates on them and it was difficult to connect the times when they were used with when they were issued.

Most incentive leave at DHS was part of one division’s incentive program which is currently suspended by the executive director.

Incentive Leave at DHS Was Largely in One Division. At DHS, 486 hours were granted to 35 employees, most of whom belonged to the Office of Recovery Services (ORS). Before it was placed under suspension—along with all cash incentives for the department—ORS had an incentive leave plan to award up to 40 hours of administrative leave for individuals and teams that met specific division goals and criteria. Most of the hours that showed up in our DHS sample appear to be these hours taken prior to the executive director’s decision.

Other Incentive Leave Difficult to Determine. The remaining incentive leave hours in the sample were given for a variety of reasons which may or may not have been justified. Most were given in small quantities. Figure 11 shows that explanation (when listed) for some of these remaining awards was questionable.

Figure 11. Examples of Explanations Given to Justify Incentive Leave. In many of these examples, it is difficult to justify incentive leave based on the documentation given. Note that each example represents hours given to one employee.

It is difficult to justifying some incentives based on the available documentation. For example, one employee got 4 hours for taking a “Fruit and Vegetable Challenge.”

Agency	Hours	Justification
DOH	12	“excellent job in support of the fall management conference...and the spring management conference.”
UDOT	4	“Incentive Time Off by [human resource director].”
DNR	2	“You Are A Star” coupon (2 coupons for 1 hour each).
DCED	4	“for work on the Annual Meeting...”
UDOC	4	filling out an agency questionnaire (the purpose of the questionnaire was not available in the documentation).
UDOC	4	for completing a division’s “Fruit and Vegetable Challenge — Are You Eating 5-A-Day?” (The participant ate “a total of 35 servings each week for four weeks” to qualify.)
DAS	8	“for winning the ‘Guess Who’ contest” (to encourage employees to read the agency newsletter).

The examples in Figure 11 illustrate the difficulty of determining whether hours given were justified and whether they were part of on-

going agency incentive policies governing incentive leave. Other cases where even less documentation existed show the concern we have for the way incentive leave is often loosely justified in state agencies.

Other Types of Unique Leave Were Granted

In addition to the incentive leave discussed, there were several other types of OA granted. As with incentive leave, a common problem among these other categories was an inability to determine leave justification. The remaining categories of leave granted, which were previously shown in Figure 10, include:

- Retirement leave (possible incentive),
- Year-end party (possible incentive),
- Health exam (non-incentive),
- Agency holiday (non-incentive),
- Training (non-incentive), and
- Miscellaneous (non-incentive).

Retirement Leave was Given in One Agency. One sample employee at UDOC was given 344 hours of OA leave as a retirement incentive. In other words, the employee was allowed to stay on the payroll for 344 hours prior to official retirement without having the hours charged against a leave account. As discussed in Chapter III, the department offered similar packages that included a combination of cash and OA leave incentives to a number of individuals as a retirement incentive, as a cost-saving means.

Year-End Party Was an Incentive in One Agency. SITLA held a fiscal year-end party for all employees because they met their revenue goals established by the SITLA board. All employees were given 4 hours of OA if they attended the party. Since this leave was based on agency performance, it could be considered a leave incentive. However, the agency's incentive policy does not mention the use of administrative leave as an incentive.

Health Examinations Were Recorded in Two Agencies. At DOH and DWS, several hours of OA were used by employees as an incentive to schedule and attend a physical check-up. Since this time off was allowed to all employees (up to 4 hours per year) and is not based on

Several types of unique leave were granted that may or may not have been incentives.

One employee got 344 hours of leave as part of an incentive to retire.

One agency granted leave for a year-end party that was tied to performance.

performance, it appears to be more of an employee benefit than an incentive. Also, we note that for several years, the Governor has granted up to 3 hours of administrative leave for employees to attend Healthy Utah testing sessions. Because this has been available to all state employees—much like the Governor’s holiday leave—we are unsure why this leave does not show up in the other agencies we sampled.

Some agencies gave:

- health exam leave,
- holiday leave in addition to the Governor’s 4 hours.

Agency Holiday Leave Was Found in Three Agencies. In addition to the Governor’s holiday leave, some agencies also allowed additional holiday leave. We did not find this as an acceptable use in any of the three agencies’ policies. In fact, one of these three agencies granting additional holiday leave does not even have a policy for granting administrative leave. We do not believe this practice of granting additional holiday leave was available to everyone. Perhaps it was granted as part of a management decision that benefitted the agency, as is listed in DHRM rules.

Some employees recorded training hours under OA. An existing training category seems more appropriate.

Several Individuals Recorded Training Under OA Leave. In five of the agencies, we found sampled individuals with OA hours showing they were granted OA for training-related reasons. Examples included:

- one SITLA employee attending a UPEA conference,
- two UDOC employees attending an annual gang conference and a Drug Court conference, and
- one DOH employee recording time for out-of-state travel.

We were surprised to see training listed under OA because standard practice is usually to record work-related training under “training” categories other than administration. One reason this is important is that some employees need to show evidence of training hours to maintain various certifications. Nonetheless, our sample contained these entries.

We coded leave given in four instances as “Miscellaneous.” The leave was not for incentives.

Miscellaneous OA Leave Went to Four Employees. The 90 miscellaneous hours shown in Figure 10 were OA hours granted to four employees in four different agencies. However, most of the hours went to one employee. The break-down is as follows:

- 72 hours of leave granted to one DCED employee, documented merely as OA “medical,”
- 8 hours of leave granted to one DHS employee for “investigations, drug testing, hearings, or fitness for duty,”

- 4 hours of leave granted to a DOH employee due to an extended power outage, and
- 6 hours of leave granted to a DNR employee for “Healthy Utah” which we assume to be exercise time since it was taken in half-hour increments.

This chapter has shown that the use of incentive leave was difficult to quantify because of the various ways leave is given and because of incomplete documentation. We have also shown that several of the categories of leave granted were not granted based on employee performance. In Chapter V, we discuss some recommended improvements to state rules and agency policies which can strengthen administration of leave incentives, as well as cash incentives.

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Chapter V

Incentive Rules Have Changed But Need Further Improvement

As mentioned in Chapter I (Introduction), this audit was assigned as a follow-up to the legislative auditor's June 2003 limited review of incentive programs at the Tax Commission and other select agencies. (Refer to ILR 2003-D, "Review of Tax Commission Employee Incentives and Performance Awards.") In response to that review, the Department of Human Resource Management (DHRM) enacted rule changes for incentives leave. We believe the 2003 audit review and DHRM rule changes have positively impacted agency policies. But, there is still work to be done to improve DHRM rules with regard to:

DHRM still needs to address:

- incentive leave rule,
 - approval of policies,
 - inconsistent programs, and
 - documentation.
-

- unclear rules for incentive leave,
- policy approval,
- inconsistent programs, and
- incentive rules lacking documentation guidelines adequate to show cost savings and/or exceptional effort.

DHRM Has Improved Rules

Effective July 2003 (fiscal year 2004), DHRM modified rules regarding incentive awards. The 2003 DHRM rules improved upon processes and controls for issuing a cash incentive award compared to the 2002 DHRM rules. New rules require that incentive policies published by agencies now be annually approved by DHRM. Language was also added to emphasize that incentives are for accomplishments beyond normal job expectations. Finally, the DHRM Incentive Award rule now requires that all incentives, regardless of amount, must be documented.

Figure 12 shows the three major changes that DHRM made to the rules for issuing a cash incentive award. In short, DHRM (1) added annual approval of agency policies, (2) expanded incentive criteria and (3) removed exemptions to documentation.

DHRM has improved rules by adding:

- annual approval,
- expanded criteria,
- documentation for all incentives.

Figure 12. DHRM Rules Were Changed Following the June 2003 Legislative Audit. These examples show changes in DHRM incentive rules, effective July 1, 2003 for three major areas. Underlined sections represent the exact changes made.

OLD: DHRM 2002 Rules (FY 03)	NEW: DHRM 2003 Rules (FY 04)
Policies shall be consistent with standards established in these rules.	<p>1. Added Annual Approval: Policies shall be approved annually by <u>DHRM</u> and be consistent with standards established in these rules.</p>
Agencies may reward employees or groups of employees who propose workable cost saving measures and other worthy acts.	<p>2. Expanded Criteria: Agencies may grant an employee or group of employees a cash incentive award who: propose workable cost savings or <u>demonstrate exceptional effort or accomplishment beyond what is normally expected on the job for a unique event or over a sustained period of time.</u></p>
Awards of \$100 or more must be documented, evaluated, and approved by the agency. A copy shall also be maintained in the agency's individual employee file.	<p>3. Removed Exempt Documentation: All cash awards must be approved by the agency head or designee. They must be documented and a copy shall be maintained in the agency's individual employee file.</p>

The remainder of this chapter suggests additional improvements which DHRM should consider for incentive rules.

Incentive Leave Should Be Included With Incentive Award Rules

Current DHRM rules for incentive leave are not in the "Incentive Award" rules section with cash and non-cash incentives, which is confusing. Furthermore, the rules are much more minimal than the cash and non-cash rules. The rules do not specify approval, criteria or documentation details for incentive leave as they do for cash and non-cash incentives. Finally, there is not a current limit of incentive leave hours per employee, per fiscal year. DHRM could remedy this concern by making parallel rules for incentive leave, or by including administrative leave incentives in lieu of cash under the cash incentive rules.

Incentive leave rules are not adequate. The leave should be governed by the same rules as cash and non-cash incentives.

Rules for Incentive Leave Do Not Mention Criteria

Current rules for incentive leave do not state that exceptional effort is required for an employee to qualify for the leave. Rules currently allow for a:

reward in lieu of cash; the agency head or designee may grant paid administrative leave up to eight hours per occurrence; administrative leave in excess of eight hours may be granted with written approval by the agency head. . . . Administrative leave taken must be documented in the employee's leave record.

DHRM told us that the intention is for incentive leave to be granted only when it meets the same "exceptional effort" requirement for cash incentives. Perhaps this is implied because the leave is given **in lieu** of cash. However, the rules are still confusing.

To clarify this issue of incentive leave, we believe agencies that grant incentive leave should follow the same rules as for cash and non-cash incentives listed in Figure 12. Therefore, it makes sense for DHRM to make a connection between the administrative leave rules back to the cash incentive rules, or state that the cash and non-cash incentive rules **also include** incentive leave granted in lieu of cash. This would make it clear that for incentive leave to be granted, it must meet the same rules for approval, criteria and documentation that exist for cash and non-cash incentives.

Incentive Leave Hours Have No Limit

In addition to making the incentive leave rules parallel to cash incentive rules, DHRM should consider placing limits on the amount of incentive leave that can be taken in a given fiscal year. There is no incentive leave limit similar to the cash incentive limit of \$8,000 per employee, per year.

We mention this because our sample in Chapter IV showed one individual received 344 incentive leave hours as part of the retirement incentive already mentioned. This is an equivalent of about \$7,700 based

Incentive leave is not currently limited per employee, per fiscal year. (Cash incentives are limited to \$8,000 per employee, per year.)

One employee was given incentive leave valued at about \$9,700.

Seven agencies have granted cash incentives in the first half of FY 04 without approved policies. DHRM should inform them that this violates incentives rules.

on the employee's hourly rate. As mentioned, this is a program that warrants review because the incentive was not based on job performance.

In that same department, there were five other individuals receiving the retirement incentive leave, with incentive hours granted ranging from 130 to 422. Per hourly rates, these incentive hours have a range of value from about \$5,100 to \$9,700 (not including benefits). It should be mentioned that the department only granted these incentive hours, as well as the retirement cash incentive awards mentioned in Chapter III, if the retiring employee's position was not going to be filled. However, we did not do a cost analysis to see actual department savings.

Some Incentives Have Been Paid Without Approved Plan

In 2003, DHRM started approving agency incentive policies annually. As of January 2004, there have been 19 incentive policies reviewed and approved by DHRM. We are concerned that there are currently seven agencies that are subject to DHRM rules which have not had their policies approved by DHRM, yet these agencies have granted incentives in fiscal year 2004.

Since new DHRM rules state that agencies must have an approved policy in order to grant incentives, these agencies are in violation. State rule does not grant DHRM the authority to disallow these incentives that have already been paid-out under non-current policies. But, DHRM should make these agencies aware that they are not following current rules governing incentives.

Incentive Criteria Has Been Further Clarified

Some agencies have changed their incentive policies to better reflect criteria of exceptional effort and have also tightened the use of incentive awards. At two agencies, revision came in the form of suspending some incentives until budgets are less scarce. Policies have also been changed to add or remove the program for sick leave incentives. This is a program we questioned earlier in Chapter III and revisit now in the last part of this section.

“Other Worthy Acts” Criteria Has Been Replaced

DHRM has clarified the qualification for incentives by replacing the “other worthy acts” language with more descriptive language. As shown in Figure 12, current rule now reads

Agencies may grant an employee or group of employees a cash incentive award who: propose workable cost savings; or demonstrate exceptional effort or accomplishment beyond what is normally expected on the job for a unique event or over a sustained period of time (new text added in underline).

Because our sample reviewed incentives under the old criteria, we cannot determine the effect of this particular rule change. However, when we contacted agencies concerning this statewide audit, we were told of changes already being made to correct questionable cash and leave incentive policies. In fact, one department director was so anxious to better scrutinize incentives in response to our review, that our audit team was asked to offer opinion on a large-dollar incentive prior to it being approved.

New Agency Policies Include “Exceptional Effort”

Our review of agency policies shows changes that have been made to clarify that exceptional effort is needed in order to qualify for incentives. New policies show that:

- More than one agency in our sample has added that incentive leave is to be granted based on **exceptional acts** or cost savings.
- DOH clarified that Quality Awards are given to reward “a single outstanding event or accomplishment. . . not [to] be used to compensate employees for routine performance of duties, incidental favors, or in reciprocation for an award from another employee.”
- DAS now lists seven specific reasons for granting incentives (such as increasing office efficiency, exemplary performance for individuals or teams, cost savings, etc.).

DHRM revised incentive rule to clarify incentives may be granted for “exceptional effort” in addition to the “proposed cost savings” already in rule. Some agencies are making similar changes.

- DWS no longer allows peer-to-peer incentives because they lacked controls and were typically rewarding only normal job duties.

We believe that these policy changes will help to tighten-up some questionable incentives, which are less-likely to be granted in the future, as the changes take hold in agencies.

Use of Sick Leave Incentive Program Still Inconsistent

A final area showing policy change is with the sick leave incentive program. In Chapter III we mentioned that some agencies offered up to \$250 in sick leave incentives for employees not using any sick leave for a year. While this program clearly awards attendance, it does not reward exceptional behavior. Our policy review shows inconsistent policies:

- DAS has indefinitely suspended the sick leave incentive program as of December 2001,
- UDOC has removed it from policy,
- DHRM continues to have a program, and
- DWS is considering adding the program.

To reiterate from Chapter III, the sick leave incentive program should be reviewed for its appropriateness as an incentive for two reasons: (1) It does not reward exceptional effort, and (2) the Legislature has the converted sick leave program to reward those who do not use sick leave.

Incentive Rules Need Documentation Guidelines

Although criteria has been strengthened, DHRM rules are still minimal in addressing documentation required when a cash incentive is awarded. Currently, rules only state that incentives “must be documented.” Additionally, language stating incentive awards needed to be “evaluated” has been eliminated from new rules. As demonstrated earlier in the report, some agencies maintain adequate documentation to justify the issuance of incentive awards, while others do not. Because of this inconsistency, DHRM needs to help ensure that documentation on each incentive award clearly demonstrates how workable cost savings,

Clarification is needed on the sick leave incentive program. While it may reward attendance, it is not clear how it rewards exceptional effort.

While rules state incentives “must be documented,” DHRM needs to offer additional documentation guidelines to ensure exceptional effort can be demonstrated.

exceptional effort or accomplishment beyond what is normally expected, justify the incentive.

In fact, by strengthening documentation requirements in DHRM rules, agencies would likely become more careful in justifying incentive awards they are granting, which helps validate the process. Additional documentation requirements would also help independent parties from the incentive process validate the issuance of incentive awards.

UDOT and DCED Forms Are Documentation Models

As a means to illustrate what we mean by adequate documentation and criteria, we highlight two agencies where justification was more readily available in our sampling.

UDOT Incentives Form Facilitates Explanation. At UDOT, incentives were documented on a standard “Incentive Award Nomination” form which contains numerous categories to show how an employee demonstrated exceptional effort. Figure 13 is a re-created portion of the UDOT incentive form.

UDOT's incentive form is a good model to facilitate good documentation.

Figure 13. UDOT's "Incentive Award Nomination" Form Gives the Nominator Adequate Means to Justify Incentives. Note that the UDOT form is a two-page document, not all of which is shown here.

REASON FOR RECOMMENDATION (Check those that apply)
<input type="checkbox"/> Increased productivity <input type="checkbox"/> Improved efficiency <input type="checkbox"/> Improved customer relations <input type="checkbox"/> Cost Savings - Estimated dollar amount \$ _____ <input type="checkbox"/> Performance above normal job responsibilities <input type="checkbox"/> Other quality improvements (please describe)
<p>Which quality drivers were used in the preparation of this nomination. Include the reasons in the description below. (Please check one or more of the following.)</p> <input type="checkbox"/> Customer Focus <input type="checkbox"/> Quality Service <input type="checkbox"/> Great Performance <input type="checkbox"/> Employee Centered
<p>Describe What Nominee Did:</p> <hr/> <hr/> <hr/>
<p>(Attach additional sheets if necessary)</p>

The form shown in Figure 13 also has instructions for the nominator to "Return completed form to one of your area Incentive Award members for approval." The process, then, is for the supervisor or manager nominating an individual for the incentive to categorize the incentives justification (by checking appropriate categories) and also provide written description. The nominator also lists a suggested award amount, using pre-defined criteria, standard to the department (not shown on form).

An incentives committee then approves or denies each incentive forwarded by the nominator. These members are on an incentives committee which reviews the award justification and dollar amount and forwards the form on for accounting approval. In our sample, we observed that the committee approved the incentives, but even lowered the amounts in a few cases.

The UDOT process also involves an incentives committee which approves or denies awards.

Beyond justification citing cost savings or exceptional work, DCED also wants to know about the employee's attitude, teamwork, behavior and accountability.

Documentation does not have to be uniform, but it should be thorough enough to show the employee's exceptional effort.

DCED Form Asks For “Healthy Work Culture.” DCED also has a standard incentive nomination form which requires detailed documentation similar to UDOT. On the DCED form, space is given to request the following:

- Brief explanation of leadership, event, and/or project,
- Description of employee's involvement, and
- Justification for Incentive Award Nomination (e.g. time/cost savings generated, outcomes or effects of the project, nominee's initiative in carrying out the project, etc.)

In May 2003, DCED also added criteria called the “Healthy Work Culture” as a requirement to strengthen incentive award documentation and justification. This includes “attitude, teamwork, behavior, accountability, etc., as well as, cost-saving efforts, individual or team participation of an activity, project, meritorious acts, or for outstanding performance.”

These examples show that while documentation does not necessarily have to be uniform, it should be thorough. To reiterate, we believe DHRM should provide guidelines such that incentives documentation clearly demonstrates how workable cost savings, exceptional effort or accomplishment beyond what is normally expected, justify the incentive.

This chapter has acknowledged that much improvement has taken place with state rules and agency incentive policies. We believe these improvements will continue as rule and policy changes continue to take hold in state agencies. We also believe the following recommendations can improve state incentives rules and give needed credibility to state incentive programs.

Recommendations

1. We recommend DHRM clarify the rules for “incentive leave” by including the requirements of awarding such leave as part of its Incentive Award Rule.
2. We recommend DHRM consider limiting, in rule, the number of incentive leave hours granted per person, per fiscal year.

3. We recommend DHRM inform agencies who have granted incentives in fiscal year 2004 while having unapproved incentive policies, that they are not in compliance with state rules.
4. We recommend DHRM review the validity of incentive award programs that do not appear to be based on job performance, such as sick leave incentives and retirement incentives. We further recommend that if DHRM determines that factors other than job performance should qualify for incentive awards, that rules be amended to clearly allow for these awards.
5. We recommend DHRM provide more guidelines on acceptable documentation for incentives to ensure that evidence of cost savings and/or exceptional effort is provided.

Appendices

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Appendix A

Incentives Sample:

Department of Workforce Services

This appendix contains four sections: Agency incentive policies, cash incentives received by a random sample of employees, high dollar incentives, and other administrative (OA) leave received by a random sample of employees. As noted earlier in Chapter II, DWS reports it funds incentives with federal funds.

Agency Incentive Policies

Fiscal year 2003 policies provide definitions for incentive awards. It defined specific class descriptions, guidelines, and dollar ranges for various class awards. Listed below are points of interests from DWS' incentive policies for fiscal year 2003.

- Class I- Quality Awards: On-the-Spot awards- \$25 to \$100. Suggested Guidelines: Impact is primarily workgroup related; single event of customer service; any accomplishment considered worthy.
- Class II- Division Awards: Up to \$2,000. Suggested Guidelines: Similar to Class I with the exception that the event impacts the division or office.
- Class III- Deputy Director Awards: Up to \$4,000. Criteria: Events or actions which have great consequences to the department or the state as a whole, heroic deeds on the job, or positive public attention.
- Class IV- Executive Director Award: Up to \$4,000. Criteria: Same as Class III awards.
- Peer Award- A peer-to-peer award of up to \$50 may be given in recognition of any worthy event of exceptional service to customers or fellow staff. Each employee will be issued two Peer Award Certificates worth \$25 each. The certificates may be combined to make one \$50 award or used as two separate \$25 awards to give to fellow staff. The awarding employee will write a brief statement in the appropriate space on the certificate explaining the reason why they chose the peer for their award. Employees may not keep the award for themselves. Employees will personally present the completed award to the recipient.
- No mention of administrative leave in lieu of cash as an award.

DWS amended their incentive policies in October 2003 and their policies were approved by DHRM on October 28, 2003. Listed below is a review of the amendments that they made to their policies.

- Eliminated the Peer Award program.
- Increased Class IV- Executive Director Award to amounts up to \$8000.
- Capped Class II Awards at \$1,000.
- Added administrative leave in lieu of cash as an incentive award.
- Added additional detail to suggested guidelines for Class I Awards.

In addition to the above policy changes already implemented, DWS has developed a draft policy for a sick leave incentive program and reports it is currently evaluating a pilot sick leave incentive program in two of its regions.

While we believe these new policies are an improvement, two concerns we have are that the new policies appear to allow the executive director awards to exceed DHRM rules of \$4,000 per occurrence. However, DWS reports its intent is to also follow DHRM rules limiting incentive amounts to \$4,000 per occurrence and it plans to clarify its policy to say so. Second, the new sick leave incentive program, if implemented, will be based on attendance rather than on outstanding job performance.

**Cash Incentives Received
by Random Sample of 100 Employees**

We randomly sampled 100 employees from DWS; 95 percent of them received cash incentives during fiscal year 2003:

- A total of 470 incentive awards were granted, totaling \$43,306.
- The range of the 470 incentive awards was from \$25 to \$3,000.
- The average amount of the 470 incentive awards was \$92.14.
- The average number of awards per person was 4.95.
- The average total incentive amount for those receiving was \$456 per person.
- The average total incentive amount as a percentage of salary was 1.24 percent.
- The total incentive amount as a percent of salary ranged from .06 to 4.65 percent.

Figure A1. Incentives by Dollar Amount and as a Percentage of Salary in Sample of 100 DWS Employees. This figure shows that 95 percent of employees received incentives. This figure summarizes on a per person basis.

Employees’s Total Incentive Amount	Number of Employees	Employee’s Total Incentive Percent of Salary	Number of Employees
\$0	5	.00%	5
\$1 - \$100	11	0.01 - .99%	44
\$101 - \$250	23	1.00 - 1.99%	37
\$251 - \$500	33	2.00 - 2.99%	9
\$501 - \$750	13	3.00 - 3.99%	3
\$751 - \$1000	7	4.00 - 4.99%	2
> \$1000	8		
Total	100	Total	100

Documentation for small dollar cash incentives awarded through the peer-to-peer program generally did not include enough explanation to show whether the award was justified. (However, new

DWS policies adopted in October 2003 have eliminated the peer-to-peer incentive awards.) In addition, since multiple small dollar incentives were granted agency wide to most employees, they do not appear to be based on exceptional performance. We also found that one division granted blanket incentives to all employees by simply dividing its incentive budget by the number of individuals.

High Dollar Incentives

Listed below is information derived from our review of the 10 employees who received the most in total cash incentives for fiscal year 2003:

- Incentive totals for ten individuals ranged from \$1,763 to \$4,150.
- Range as a percent of salary was 1.6 to 7.5 percent.
- The average percent of salary was 3.9 percent.

In our review of ten employees given high dollar incentives (either one-time larger amounts or multiple smaller amounts), we were able to see justification for the incentives for only one employee. The nine other employees received multiple awards, but we were only to see justification on some of them; we found evidence that an award was given, but did not always find justification. For example, one employee received \$3,000 which was reported on the employee's time and attendance report, but with no explanation. Another employee was awarded \$1,000 based on an email that stated "I am giving a \$ Directors Award to [employee]. Please process this award as soon as possible."

Other Administrative (OA) Leave Received by Random Sample of 100 Employees

We reviewed administrative leave for the same random sample of 100 employees that we used to review cash incentives. As shown in Figure A2, there were several reasons for administrative leave in the sample.

Figure A2. Administrative Leave Granted in a Sample of 100 DWS Employees. This figure shows the most common reasons why administrative leave was taken by employees at DWS.

Leave Reason	Total Hours	Recipients	Average Hours	Percent of Total
Incentive in lieu of cash	436	51	8.5	37.0%
Governor’s Holiday Leave	331	84	3.9	28.1%
Unknown OA	198	22	9.0	16.8%
Health Exam	148	36	4.1	12.6%
Agency Holiday Leave	12	5	2.4	1.0%
Training	29	3	9.7	2.5%
Funeral	24	1	24.0	2.0%
Sample Total	1178			100%

We found that documentation of administrative leave was a significant concern. The reasons for about 17 percent of the leave hours were Unknown because there was not adequate explanation in the employee files. We could only tell that administrative leave was taken, but not the reason. The Unknown OA may or may not be incentive leave in lieu of cash. Still, the largest portion of the sample was for Incentive Awards, which accounted for 37 percent of the total OA hours.

Most incentive leave awards were issued by a certificate which was supposed to list the reason for granting the award. However, many of the leave awards had scant justification. The leave awards may have very well been earned, but documentation provided to us did not explain the exceptional effort for some of the awards. In addition, the incentive leave awards were not well controlled. Some of the awards were distributed without restrictions as to when the awards expired, when they could be used, whether they could be consolidated with other leave awards, or whether they could be gifted away and under what conditions. Some certificates did not have a name on them, which could have allowed trading among employees. Awards were frequently saved up and turned in collectively to the payroll officer at different times of the year. Sometimes the awards were split up and used part at one time and part at another time. Finally, the award certificates may or may not have had expiration dates on them and it was difficult to connect the times when they were used with when they were issued.

The other leave shown in Figure A2 does not appear to be incentive leave. Besides the holiday leave granted by the governor, administration in some regions at DWS also granted additional holiday leave which was coded under OA. Another common reason for leave was for a Health Exam program, which accounted for about 12 percent of all hours in the sample. All employees at DWS are given administrative leave to schedule and attend health exams at their own convenience. There were a few examples of leave hours simply being mis-coded. For example, training should not come under administrative leave but rather regular work hours. In addition, funeral leave has its own code of OE and would not normally fall under the OA category.

Appendix B

Incentives Sample: Department of Health

This appendix contains four sections: Agency incentive policies, cash incentives received by a random sample of employees, high dollar incentives, and other administrative (OA) leave received by a random sample of employees.

Agency Incentive Policies

The DOH's incentive policy for Fiscal year 2003 allowed for the following:

- Administrative Leave in lieu of cash as an incentive award.
- Class I Awards (up to \$300).
- Class II Awards (up to \$2000).
- Class III Awards (up to \$4000).

The DOH's incentive policy lists criteria and suggested guidelines for each award. More detailed criteria and documentation is required for the issuance of higher level awards.

The DOH revised their incentive policies in November 2003 and DHRM approved their policies on November 16, 2003. In these revisions they added additional detail to policy addressing the criteria for issuing an award. DOH also added language as to what constitutes inappropriate use of incentive awards.

Cash Incentives Received by Random Sample of 100 Employees

We randomly sampled 100 employees from DOH; 82 percent of them received cash incentives during fiscal year 2003.

- A total of 324 incentive awards were granted, totaling \$39,875.
- The range of the 324 incentive awards was from \$25 to \$550.
- The average amount of the 324 incentive awards was \$123.07.
- The average number of awards per person was 3.95.
- The average total incentive amount for those receiving was \$486 per person.
- The average total incentive amount as a percentage of salary was 1.38 percent.
- The total incentive amount as a percent of salary ranged from .08 to 7.65 percent.

Figure B1. Incentives by Dollar Amount and as a Percentage of Salary in Sample of 100 DOH Employees. This figure shows that 82 percent of the employees in the sample received incentives. This figure summarizes on a per person basis.

Employee's Total Incentive Amount	Number of Employees	Employee's Total Incentive Percent of Salary	Number of Employees
\$0	18	.00%	18
\$1 - \$100	16	.01 - .99%	39
\$101 - \$250	20	1.00 - 1.99%	21
\$251 - \$500	15	2.00 - 2.99%	10
\$501 - \$750	13	3.00 - 3.99%	6
\$751 - \$1000	8	4.00 - 4.99%	2
>\$1000	10	5.00 - 7.99%	4
Total	100	Total	100

Documentation for small dollar cash incentives awarded generally did not include enough explanation to show whether the award was justified. In addition, since multiple small dollar incentives were granted agency wide to most employees, they do not appear to be based on exceptional performance.

High Dollar Incentives

Listed below is information derived from our review of the 10 employees who received the most in total cash incentives for fiscal year 2003:

- Incentive totals for ten individuals ranged from \$1,200 to \$4,000.
- Range as a percent of salary was 2.12 to 4.97 percent.
- The average percent of salary was 3.35 percent.

In our review of ten employees given high dollar incentives (either one-time larger amounts or multiple smaller amounts), we were able to see justification for the incentives based on the documentation in all instances, except two. DOH awarded two \$1,000 incentives to two individuals that had no documentation. Human resource officials at DOH stated that somehow the documentation was misplaced and they were unable to locate it. Two other employees in the high cash incentives group received hire-on bonuses.

Other Administrative (OA) Leave Received by Random Sample of 100 Employees

We reviewed administrative leave for the same random sample of 100 employees that we used to review cash incentives. As shown in Figure B2, there were several reasons for administrative leave in the sample.

Figure B2. Administrative Leave Granted to the 100 Employees Sampled at DOH for Fiscal Year 2003. This figure shows that the majority of hours granted were for the Governor's holiday leave.

Leave Reason	Total Hours	Recipients	Average Hours	Percent of Total
Governor's Holiday Leave	296	78	3.8	33.8%
Funeral	158	7	22.6	18.0%
Incentive in lieu of cash	141	6	23.5	16.1%
Unknown OA	90	14	6.4	10.3%
Health Exam	81	31	2.6	9.3%
Military	66	1	66.0	7.5%
Training	40	1	40.0	4.6%
Miscellaneous OA	4	1	4.0	0.4%
Sample Total	876			100%

We found that documentation of administrative leave was a significant concern. The reasons for about 10 percent of the leave hours were Unknown because there was not adequate explanation in the employee files. We could only tell that administrative leave was taken, but not the reason. DOH did not always maintain documentation as to the reasons for the administrative leave until June 2003. The Unknown OA may or may not be incentive leave in lieu of cash.

In our review of the administrative leave granted in our sample at DOH, we found that the majority of leave was attributed to the 4 hours of holiday leave from the Governor. DOH has a Health Exam program where employees are granted up to 4 hours every calendar year for the purpose of receiving general medical examinations. The miscellaneous OA leave was granted to an employee who could not work due to a power outage.

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Appendix C

Incentives Sample:

Department of Transportation

This appendix contains four sections: Agency incentive policies, cash incentives received by a random sample of employees, high dollar incentives, and other administrative (OA) leave received by a random sample of employees.

Agency Incentive Policy

UDOT's incentive policies for fiscal year 2003 did not contain provisions for the granting of administrative leave in lieu of cash as an incentive award. Their policies did provide recommended incentive award amounts with accompanying reasons, listed below:

- \$100- \$300: Employee of the month or improves UDOT image through public service. Motivates or increases morale within the work group. Contribute to a project, group or another person who receives National, State, or other special recognition.
- \$200- \$400: Team/crew performance award: resulting from exceptional attitude, exemplary performance, cost savings, innovative concepts or ideas, or outstanding work ethics over and above normal job duties. Creates, designs, or builds equipment that increases productivity or improves existing procedures.
- \$300- \$500: Accepts additional work/responsibilities to help work unit(for a period of one month or more) while maintaining their regular job duties. Employee responsible for implementation of new programs/processes that benefit the Department.
- \$400- \$600: Develop or improve a process which has a documented cost savings to the Department of \$5,000 to \$40,000.
- \$750- \$4000: Develop or improve a process which has a documented cost savings to the Department of \$40,000 or more.

UDOT revised their incentive policies for fiscal year 2003 and DHRM approved their policies on August 18, 2003. In their revisions they added language addressing administrative leave in lieu of cash as an incentive award and a notes of appreciation program.

Cash Incentives Received by Random Sample of 100 Employees

We randomly sampled 100 employees from UDOT; 49 percent of them received cash incentives during fiscal year 2003:

- A total of 72 incentive awards were granted, totaling \$17,285.
- The range of the 72 incentive awards was from \$10 to \$575.
- The average amount of the 72 incentive awards was \$240.07.

- The average number of awards per person was 1.47.
- The average total incentive amount for those receiving was \$353 per person.
- The average total incentive amount as a percentage of salary was 1 percent.
- The total incentive as a percent of salary ranged from .06 to 2.64 percent.

Figure C1. Incentives by Dollar Amount and as a Percentage of Salary in Sample of 100 UDOT Employees. This figure shows just under half, 49 percent of the employees in the sample, received incentives. This figure summarizes on a per person basis.

Employee's Total Incentive Amount	Number of Employees	Employee's Total Incentive Percent of Salary	Number of Employees
\$0	51	.00%	51
\$1 - \$100	6	.01 - .99%	25
\$101 - \$250	15	1.00 - 1.99%	20
\$251 - \$500	19	2.00 - 2.99%	4
\$501 - \$750	6		
\$751 - \$1000	3		
> \$1000	0		
Total	100	Total	100

UDOT's incentives were well documented, which is likely attributable to the use of a standard "Incentives Award Nomination" form that requires a description of what the employee did to justify an incentive award. We mentioned this form, and the UDOT incentives approval process, in Chapter V as a "best practice" for documenting of incentives because it facilitates good documentation. The form lists reasons the nominator can "check" for recommending the employee, with additional space to elaborate. Some reasons include:

- Increased productivity
- Improved efficiency
- Improved customer relations
- Cost Savings - Estimated dollar amount \$ _____ .
- Performance above normal job responsibilities
- Other quality improvements (please describe)

High Dollar Incentives

Listed below is information derived from our review of the 10 employees who received the most in total cash incentives for fiscal year 2003:

- Incentive totals for ten individuals ranged from \$1,500 to \$3,000.
- Range as a percent of salary was from 2 to 7.4 percent.
- The average percent of salary was 3.6 percent.

In our review of ten employees given high dollar incentives (either one-time larger amounts or multiple smaller amounts), we were able to see justification for the incentives based on the documentation in all instances, except two. We were concerned that two separate incentives given to one individual were processed based only on a brief e-mail request for the incentive, with no further documentation.

Other Administrative (OA) Leave Received by Random Sample of 100 Employees

We reviewed administrative leave for the same random sample of 100 employees that we used to review cash incentives. As shown in Figure C2, there were several reasons for administrative leave in the sample.

Figure C2. Administrative Leave Granted in Sample of 100 UDOT Employees. The majority of hours (63 percent) were for the Governor’s Holiday Leave. Of our sample of 100 employees, only 4 hours was granted as an incentive award.

Leave Reason	Total Hours	Recipients	Average Hours	Percent of Total
Governor’s Holiday Leave	348	89	3.9	62.7%
Funeral	201	10	20.1	36.2%
Incentive in lieu of cash	4	1	4.0	0.7%
Unknown OA	2	1	2.0	0.4%
Sample Total	555			100%

Figure C2 shows that almost all administrative leave hours in the sample consisted of the Governor’s holiday leave and funeral leave (OE) which had been coded as OA rather than OE. Additionally, our review of employees with a high amount of hours showed that the hours were given for military leave (OM) which appeared under the OA category. Based on the sample, granting leave hours in lieu of cash does not appear to be common at UDOT.

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Appendix D

Incentives Totals:

School & Institutional Trust Lands

This appendix contains four sections: Agency incentive policies, cash incentives received by SITLA employees, high dollar incentives, and other administrative (OA) leave received by SITLA employees.

Agency Incentive Policies

A restricted few members of SITLA upper management are not subject to the state Personnel Management Act which is the governing source for DHRM rules, including the spending limit of \$8,000 per employee, per year. SITLA's incentives for these members of management are governed by different personnel rules under the SITLA Management Act which reads,

(iii) the administration shall comply with Title 67, Chapter 19, Utah State Personnel Management Act, except as follows:

(C) the board may create an annual incentive and bonus plan for the director and other administration employees designated by the board, based upon the attainment of financial performance goals and other measurable criteria defined and budgeted in advance by the board . . . (see Utah Code 53C-1-201-(3)(a)).

SITLA incentive policies for all employees, established by its board, are in three major categories:

1. Incentives for meeting monetary goals set by the board (increase in revenue from state lands.) Both management and other employees are eligible.
2. Incentives for meeting specific non-monetary goals set by the board. Only the few members of upper-management exempted from DHRM rules are eligible.
3. Incentives as governed by DHRM rules. Management and employees are eligible, except the director, assistant director and general counsel.

Revenue goals are set by the SITLA Board each year, as well as the non-monetary goals. SITLA management is eligible to share up to \$75,000 for meeting revenue goals, and other employees can receive lesser amounts, subject to DHRM limits.

Non-monetary goals are established each year by the SITLA Board. If these goals are realized in the year then up to \$75,000 is shared between the eight individuals in upper management. In policy, a dollar amount is attached to various objectives and the accomplishment of these objectives results in an incentive award for the eight individuals in upper-management. Below is listed some of the non-monetary objectives established by the board with the assigned incentive amount:

- Identify necessary changes to statute, regulation or Board policy based on issues presented in adjudications before the Board. Worth 10 percent of non-monetary bonus: \$7,500.
- Forward Thinking. Worth 20 percent of non-monetary bonus: \$15,000.
- Develop block management plans. Worth 10 percent of non-monetary bonus: \$7,500.

Following each objective in policy, criteria and steps to be completed in order for the award to be granted is provided. As mentioned previously, SITLA employees can also earn incentives if revenue goals are met and these incentives are in addition to the non-monetary goals. SITLA reported that they have not always met all of the non-monetary goals every year.

Cash Incentives Reviewed for SITLA Non-management Employees

Rather than sampling, we reviewed all SITLA non-management employees because there were only 58. Of these 58, there were 53 (91 percent) who received cash incentives in fiscal year 2003. The five employees who did not receive a cash incentive were not eligible because they did not qualify (interns or temporary employees) or were disqualified due to disciplinary action:

- A total of 119 incentives were granted, totaling \$136,851.
- The range of the 119 incentives was from \$250 to \$4,000.
- The average amount of the 119 incentive awards was \$1,150.00.
- The average number of awards per person was 2.25.
- The average total incentive amount for those receiving was \$2,582 per person.
- The average total incentive amount as a percentage of salary was 6.5 percent.
- The total incentive amount as a percent of salary ranged from 1.00 to 14.5 percent.

Figure D1. Incentives by Dollar Amount and as a Percentage of Salary for 58 SITLA Employees. This figure shows that 91 percent of employees (53 of 58 employees) received cash incentives in fiscal year 2003. This figure summarizes on a per person basis.

Employee's Total Incentive Amount	Number of Employees	Employee's Total Incentive Percent of Salary	Number of Employees
\$0	5	.00%	5
\$1 - \$1000	3	.01 - 4.99%	17
\$1001 - \$3000	39	5.0 - 9.99%	29
\$3001 - \$6000	8	10.00 - 14.99%	7
\$6001 - \$8000	3		
Total	58	Total	58

Based on our discussions with SITLA administrators every eligible employee receives an incentive award each year revenue goals are met and SITLA has met revenue goals every year since 1998.

High Dollar (Management) Incentives

Listed below is information from our review of the eight upper management employees who are exempt from DHRM rules and received incentives under SITLA Board policy for fiscal year 2003:

- Incentive totals for eight individuals ranged from \$13,334 to \$25,000.
- Range as a percent of salary was 16.3 to 25.7 percent.
- The average percent of salary was 21.8 percent.

We asked the SITLA director and board chairman about the Legislature's reaction to the high incentives for management. Both responded that the Legislature is aware of the incentives; the Legislature intends that SITLA be treated like a business. They said further that these types of bonuses are right in line with what the private sector does.

For fiscal year 2003, the Legislature approved the board's request for up to \$150,000 to be given for management incentives: \$75,000 for meeting revenue goals and \$75,000 for meeting other measurable non-monetary goals. The fiscal year 2003 actual expenditure for the management incentives was \$151,334.

Additionally, SITLA gave incentives totaling \$136,851 to most of the remaining employees, as shown in the previous section. The majority of these incentives were for meeting the revenue goals. So, in total, SITLA spent \$288,185 for incentives in fiscal year 2003 (which is reported in Chapter II, Figure 1.)

Other Administrative (OA) Leave Received by SITLA Employees

We reviewed administrative leave for all SITLA employees. As shown in Figure D2, there were several reasons for administrative leave.

Figure D2. Administrative Leave Granted to the 66 Employees at SITLA for Fiscal Year 2003.
 This figure shows that nearly 50 percent of hours granted were for the Governor’s and agency holiday leave.

Leave Reason	Total Hours	Recipients	Average Hours	Percent of Total
Governor’s Holiday Leave	191	48	4.0	24.6 %
Agency Holiday Leave	189	46	4.1	24.4 %
Year End Party	140	37	3.8	18.1 %
Funeral	88	4	22.0	11.3 %
Military	88	2	44.0	11.3 %
Discipline	72	1	72.0	9.3 %
Training	8	1	8.0	1.0 %
Sample Total	776			100 %

In our review of the administrative leave granted to the 66 individuals employed at SITLA, we found that the majority of leave was attributed to the 4 hours of holiday leave from the Governor and an additional 4 hours of holiday leave granted by the agency. Like some other agencies, SITLA allows for administrative leave for an office party. SITLA has this party if the agency meets the revenue goal for the year. Because the party reportedly is contingent on the agency meeting its revenue goals, it may be considered incentive leave. We also found training for UPEA that was entered as administrative leave.

Appendix E

Incentives Sample:

Department of Natural Resources

This appendix contains four sections: Agency incentive policies, cash incentives received by a random sample of employees, high dollar incentives, and other administrative (OA) leave received by a random sample of employees.

Agency Incentive Policies

DNR's incentive policies for fiscal year 2003 states that Class II awards and greater shall be accompanied by a detailed written commendation. Class I awards did not have to be documented. Their policy states that 8 hours of administrative leave shall equal \$100. DNR's incentive policies classify incentives into five categories with the accompany dollar amounts and criteria for each class award. Listed below is the five incentive award classes DNR allows for in policy:

- Class I - Administrative leave or cash award or a combination thereof not to exceed \$100.
- Class II - Administrative leave or cash award or a combination thereof not to exceed \$800.
- Class III - Administrative leave or cash award or a combination thereof not to exceed \$1,600.
- Class IV - Administrative leave or cash award or a combination not to exceed \$3,000.
Administrative leave included in this award class shall not exceed forty (40) hours.
- Class V - Administrative leave or cash award or a combination not to exceed \$4,000.
Administrative leave included in this award class shall not exceed forty (40) hours.

DNR amended their incentive policies for fiscal year 2004 and DHRM approved their policies August 18, 2003. The most significant changes that DNR made to their incentive policies include requiring all nominations for cash/administrative leave awards to be accompanied by a detailed description of the qualifying performance, project, or act and the nature of the nominee's involvement. It must also explain why the act is worthy of consideration for the recommended class of incentive award. DNR also requires in policy a monitoring system to ensure that incentives do not exceed established limitations, that all divisions maintain accurate records of the awards and to make them available for audits.

Cash Incentives Received by Random Sample of 50 Employees

We randomly sampled 50 employees from DNR; 56 percent of them (28 individuals) received cash incentives during fiscal year 2003:

- A total of 52 incentive awards were granted, totaling \$6,342.
- The range of the 52 incentive awards was from \$20 to \$500.
- The average amount of the 52 incentive awards was \$121.96.

- The average number of awards per person was 1.86.
- The average total incentive amount for those receiving was \$227 per person.
- The average total incentive amount as a percentage of salary was .63 percent.
- The total incentive amount as a percent of salary ranged from .04 to 2.22 percent.

Figure E1. Incentives by Dollar Amount as a Percentage of Salary in Sample of 50 DNR Employees. This figure shows just over half (56 percent) of the employees in the sample received incentives. This figure summarizes on a per person basis.

Employee's Total Incentive Amount	Number of Employees	Employee's Total Incentive Percent of Salary	Number of Employees
\$0	22	.00%	22
\$1 - \$100	13	.01 - .99%	20
\$101 - \$250	5	1.00 - 1.99%	6
\$251 - \$500	8	2.00 - 2.99%	2
\$501 - \$750	2		
\$751 - \$1000	0		
> \$1000	0		
Total	50	Total	50

Because no documentation was required on awards under \$100 and many DNR employees sampled received awards under \$100, we often could not verify that they were justified. In addition, some awards may have been structured to avoid documentation. Finally, in one case we found an apparent blanket incentive of \$100 each granted to 53 individuals in a division with no justification for the incentive award documented. The human resource director reported that the division responsible was notified of the error prior to the start of this legislative audit.

High Dollar Incentives

Listed below is information derived from our review of the 10 employees who received the most in total cash incentives for fiscal year 2003:

- Incentive totals for ten individuals ranged from \$1,350 to \$2,729.
- Range as a percent of salary was 2.16 to 8.68 percent.
- The average percent of salary was 4.1 percent.

In our review of ten employees given high dollar incentives (either one-time larger amounts or multiple smaller amounts), we were able to see justification for the incentives based on the documentation in all instances, except one. As part of \$1,900 in total incentive awards, one individual was given a \$100 award for “employee of the month” which did not give explanation.

Other Administrative (OA) Leave Received by Random Sample of 50 Employees

We reviewed administrative leave for the same random sample of 50 employees that we used to review cash incentives. As shown in Figure E2, there were several reasons for administrative leave in the sample.

Figure E2. Administrative Leave Granted in Sample of 50 DNR Employees. The majority of administrative leave granted at DNR is attributed to the Governor’s holiday leave and additional agency holiday leave.

Leave Reason	Total Hours	Recipients	Average Hours	Percent of Total
Governor’s Holiday Leave	164	41	4.0	37.3%
Agency Holiday Leave	152	38	4.0	34.5%
Military	96	1	96.0	21.8%
Funeral	12	1	12.0	2.7%
Incentive in lieu of cash	10	2	5.0	2.3%
Miscellaneous OA	6	1	6.0	1.4%
Sample Total	440			100%

Figure E2 shows that almost all administrative leave hours in the sample consisted of the Governor’s Holiday Leave and Military Leave which had been coded as OA rather than OM. Based on the sample, granting leave hours in lieu of cash does not appear to be common at DNR. A total of ten hours were granted as an incentive to two employees and the hours were documented in the employees time-sheets, but whether they were justified is unclear. It should be noted that the director of DNR grants four hours of administrative leave during the holidays along with the four hours from the Governor. The miscellaneous OA leave was granted to an employee for exercise time under the “Healthy Utah” program.

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Appendix F

Incentives Sample: Community & Economic Development

This appendix contains four sections: Agency incentive policies, cash incentives received by a random sample of employees, high dollar incentives, and other administrative (OA) leave received by a random sample of employees.

Agency Incentive Policies

DCED's incentive policies in place for fiscal year 2003 had no provisions for administrative leave in lieu of cash as an incentive award. Nominations for incentive awards did require adequate justifications. DCED had four classes of incentive awards, listed below:

- Class I- Exemplary performance may be for nominations when dollar awards do not exceed \$100. This incentive award requires the signatures of the division's director and budget officer. *Example: An on-the-spot recognition for a noteworthy act.*
- Class II- Exemplary performance that has had a significant effect on the individual's immediate co-workers (or his/her work effort); or, cost savings of significant benefit to the department. *Example: An employee who develops a new procedure, which significantly reduces paperwork, eliminates a form, or uses technology to speed up a paper transfer.*
- Class III- The exercise of leadership and/or initiative beyond that which is expected in an individual's assignment; an employee who is willing to meet emergency or unusual deadlines; or, accepts and performs assignments not associated with one's regular duties or assignments. *Example: A major request for information is received which requires employees across divisions to participate in collecting data and putting it into a coherent format. The proposal may hold the potential for relocation of three major industries that will result in 400 new jobs or, substantial amount of funds for the formation of a new institute or program.*
- Class IV- Superlative performance or actions that affect great consequences to the department (or state as a whole) and whose efforts may have a lasting influence to the department and/or state; or, substantial annual cost-savings accepted and implemented in the department. *Example: Relocation of four major industries which results in 600 new jobs; a major new funding initiative from state or federal resources; or, a new administration action which results in more focused, efficient services within the department.*

DCED amended their incentive policies in July 2003 and DHRM approved their policies on October 27, 2003. DCED's current policies state that all awards shall be accompanied by a detailed written commendation. DCED no longer allows for on-the-spot awards or administrative leave as an incentive. DCED's cash incentives are divided into three classes and policies provide criteria and examples for the issuance of these three types of awards. More detailed criteria and documentation is required for the issuance of higher level awards. Class III awards are to have the deputy director's or executive director's signature of approval. The incentive award classes are:

- Class I awards range from \$200 to \$500
- Class II awards range from \$501 to \$1,500
- Class III awards range from \$1,501 to \$4,000

Cash Incentives Received by Random Sample of 50 Employees

We randomly sampled 50 employees from DCED; 72 percent of them (36 individuals) received cash incentives during fiscal year 2003:

- A total of 51 incentive awards were granted, totaling \$24,275.
- The range of the 51 incentive awards was from \$100 to \$1,000.
- The average amount of the 51 incentive awards was \$475.98.
- The average number of awards per person was 1.42.
- The average total incentive amount for those receiving was \$674 per person.
- The average total incentive amount as a percentage of salary was 1.58 percent.
- The total incentive as a percent of salary ranged from .45 to 3.64 percent.

Figure F1. Incentives by Dollar Amount and as a Percentage of Salary in Sample of 50 DCED Employees. This figure shows that 36 out of 50 (72 percent) of the employees in the sample received incentives. This figure summarizes on a per person basis.

Employee's Total Incentive Amount	Number of Employees	Employee's Total Incentive Percent of Salary	Number of Employees
\$0	14	.00%	14
\$1 - \$100	0	.01 - .99%	12
\$101 - \$250	6	1.00 - 1.99%	14
\$251 - \$500	15	2.00 - 2.99%	9
\$501 - \$750	5	3.00 - 3.99%	1
\$751 - \$1000	4		
> \$1000	6		
Total	50	Total	50

The DCED incentive awards were well documented on a standard form that indicates what the employee did to earn the award. In fact, in Chapter V we mention that on DCED's form, space is given to request the following:

- Brief explanation of leadership, event, and/or project,
- Description of employee's involvement, and
- Justification for Incentive Award Nomination (e.g. time/cost savings generated, outcomes or effects of the project, nominee's initiative in carrying out the project, etc.).

In Chapter V, we also mention that in May 2003, DCED added criteria called the “Healthy Work Culture” as a requirement to strengthen incentive award documentation and justification. This includes “attitude, teamwork, behavior, accountability, etc., as well as, cost-saving efforts, individual or team participation of an activity, project, meritorious acts, or for outstanding performance.”

High Dollar Incentives

Listed below is information derived from our review of the 10 employees who received the most in total cash incentives for fiscal year 2003:

- Incentive totals for ten individuals ranged from \$1,650 to \$5,700.
- Range as a percent of salary was 2.33 to 10.36 percent.
- The average percent of salary was 4.0 percent.

In our review of ten employees given high dollar incentives (either one-time larger amounts or multiple smaller amounts), we were able to see justification for the incentives based on the documentation in all instances. However, we found in seven of 24 occurrences that the deputy director did not sign the incentive form as required by their incentive policy for amounts over \$500.

Other Administrative (OA) Leave Received by Random Sample of 50 Employees

We reviewed administrative leave for the same random sample of 50 employees that we used to review cash incentives. As shown in Figure F2, there were several reasons for administrative leave in the sample.

Figure F2. Administrative Leave Granted in Sample of 50 DCED Employees. Most administrative leave hours are because of disciplinary reasons or the Governor’s holiday leave.

Leave Reason	Total Hours	Recipients	Average Hours	Percent of Total
Discipline	200	2	100.0	36.5%
Governor’s Holiday Leave	150	38	3.9	27.4%
Funeral	95	4	23.8	17.3%
Miscellaneous OA	72	1	72	13.1%
Training	20	5	4	3.7%
Incentive in lieu of cash	11	2	5.5	2.0%
Sample Total	548			100.0%

Of the 50 people that we sampled only two employees received administrative hours as an incentive for a total of 10.5 hours for fiscal year 2003. DCED's new policies that took effect in July 2003 for fiscal year 2004 states that administrative leave is no longer to be used as an incentive award. The miscellaneous OA leave was granted to an employee for an unspecified medical reason documented on the employee's time sheet as OA "medical."

Appendix G

Incentives Sample: Department of Corrections

This appendix contains four sections: Agency incentive policies, cash incentives received by a random sample of employees, high dollar incentives, and other administrative (OA) leave received by a random sample of employees.

Agency Incentive Policy

The UDOC incentive policies in place during fiscal year 2003 contained no reference to administrative leave in lieu of cash as an incentive award. Nominations for incentive awards have to be approved by an incentive award committee and by the executive director. The incentive award policy does have four sets of dollar ranges with accompanying criteria for an award to be issued. Listed below is the criteria that UDOC uses to determine award amounts:

- Excellent- \$50- \$400: Excellent work performance which has a significant effect on the member's immediate co-workers of their work effort. Cost savings in excess of \$30,000.
- Superior- \$400- \$800: Superior work performance or actions which effect the morale or effectiveness of a sizeable segment of the department's operations. Cost savings in excess of \$40,000.
- Superior- \$800- \$1,200: Highly superior work performance or action which draws favorable public attention upon the department, the effects of which may be felt throughout the department for a substantial period of time. Cost savings in excess of \$70,000.
- Superlative- \$50- \$400: Superlative work performance or actions which have a major consequence to the department or to the state as a whole, and whose effects are of a lasting character. Cost savings in excess of \$100,000.

Incentive policies revised July 1, 2002 eliminated on-the-spot and sick leave incentive awards because of budget constraints. Although abandoned in response to the budget shortfalls, under the Sick Leave Incentive program, employees could earn \$50 per quarter if no sick leave was used. Furthermore, if no sick leave was used for an entire year (four consecutive quarters) an additional \$50 could be granted, for a maximum possible total of \$250 per year. In April 2003, UDOC amended their incentive policies again in order to make minor technical changes, DHRM has yet to approve UDOC's current incentive policy.

Cash Incentives Received by Random Sample of 50 Employees

We randomly sampled 50 employees from UDOC; 32 percent of them (16 individuals) received cash incentives during fiscal year 2003:

- A total of 16 incentive awards were granted, totaling \$800.
- Each of the 16 incentive awards was for \$50.00.
- The average number of awards per person was 1.0 (each award went to a different person).
- The total incentive amount received by each of the 16 employees was \$50.
- The average total incentive amount as a percentage of salary was .13 percent.
- The total incentive amount as a percent of salary ranged from .07 to .29 percent.

Figure G1. Incentives by Dollar Amount and as a Percentage of Salary in Sample of 50 UDOC Employees. This figure shows only 32 percent of the sample received incentives. Only 16 incentives of 50 dollars each were found in the sample. This figure summarizes on a per person basis.

Employee's Total Incentive Amount	Number of Employees	Employee's Total Incentive Percent of Salary	Number of Employees
\$0	34	.00%	34
\$1 - \$100	16	0.01 - 1.00%	16
Total	50	Total	50

All of the cash incentive awards for sampled employees were for not using sick leave. The sick leave incentive raises a concern because it is based on attendance rather than performance. However, UDOC eliminated its sick leave incentive program in July, 2002. The \$50 sick leave awards that came up in our sample were because of individuals who earned the award under the old policy and cashed-out the award in August 2003.

High Dollar Incentives

Listed below is information derived from our review of the 10 employees who received the most in total cash incentives for fiscal year 2003:

- Incentive totals for ten individuals ranged from \$ 6,050 to \$8,050.
- Range as a percent of salary was 9.7 to 19.7 percent.
- The average percent of salary was 13.9 percent.

All of these high dollar incentives were a “retirement” incentive. The retirement incentives were given to select employees already eligible for retirement; they received an incentive to leave the department as a cost-savings strategy. The department’s strategy was that after the employees left, their positions would be left vacant, thus saving the department funds. While this may have been a cost-saving strategy, the spent-funds seem to be mis-termed as “incentives” because the awards were not based on proposed cost savings attributable to individuals or on-the-job performance.

In addition to the cash, the retirement incentive program also allowed employees to receive administrative leave allowing them to be paid without doing any work for the state. We identified six

individuals who received between 133 and 422 hours of administrative leave as a retirement incentive. The six individuals received between \$5,164 and \$9,740 in salary; including benefits the cost to the state was about 30 percent greater than that. Four of the ten high dollar incentive recipients also received administrative leave. For these four individuals, combining the cash and leave value (excluding benefit value), raised the amount received by three individuals to about \$17,500; the other individual received about \$13,500.

Even excluding the administrative leave value, the Department of Corrections exceeded the \$8,000 DHRM allowance for two employees who both received \$8,050 in fiscal year 2003. In both cases, the employees received \$8,000 for the retirement incentive and both had a \$50 sick leave incentive for the last quarter of fiscal year 2002 (April - June, 2002). In both cases, the \$50 was not paid until August 2003, which is part of fiscal year 2003 spending even though it was earned in fiscal year 2002. The department admits this was an oversight as they were paying the last of the sick leave incentives from the abandoned program. Further, UDOC's use of this retirement incentive appears to be unique and was not found in other agencies reviewed.

Other Administrative (OA) Leave Received by Random Sample of 50 Employees

We reviewed administrative leave for the same random sample of 100 employees that we used to review cash incentives. As shown in Figure G2, there were several reasons for administrative leave in the sample.

Figure G2. Administrative Leave Granted in Sample of 50 UDOC Employees. Leave offered in lieu of cash as a retirement incentive accounted for 46 percent of administrative leave granted in fiscal year 2003.

Leave Reason	Total Hours	Recipients	Average Hours	Percent of Total
Retirement Incentive	344	1	344.0	46.2%
Military	152	2	76.0	20.4%
Governor's Holiday Leave	102	26	3.9	13.7%
Training	88	3	29.3	11.8%
Funeral	44	3	14.7	5.9%
Incentive in lieu of cash	15	5	3.0	2.0%
Sample Total	745			100.0%

Figure G2 shows that the majority of other administrative (OA) leave hours granted to one employee as part of the retirement incentive. As with other agencies, there was military (OM) and funeral leave (OE) which was mis-coded under OA. Some odd administrative leave under incentive

award in lieu of cash were for filling out a division survey and taking a department “fruit and vegetable challenge.”

Appendix H

Incentives Sample:

Department of Administrative Services

This appendix contains four sections: Agency incentive policies, cash incentives received by a random sample of employees, high dollar incentives, and other administrative (OA) leave received by a random sample of employees.

Agency Incentive Policies

The incentive policy that DAS had in place in fiscal year 2003 delegated individual awards up to \$500 and administrative leave in lieu of cash as an incentive award (up to 2 days) to the discretion of division directors. Only awards of \$100 or more had to be documented and evaluated according to division guidelines. Each division was responsible for establishing policies and procedures by which incentive awards were approved. Department policy established the purpose of incentive awards as a reward to individuals or groups of employees who develop, implement and practice cost-savings measures or for other worthy acts. Department policy also established at the discretion of the executive director, a sick leave incentive program.

In July 2003, DAS amended their incentive policies and DHRM approved these policies on July 11, 2003. New department policies require all incentive awards to be documented and evaluated according to division guidelines and while divisions still develop their own incentive policies, more direction is now provided in department policy. The incentive policies used at DAS now provide criteria as to what merits the issuance of an incentive award and defines the criteria for it's employees. Department policy now states, that employees may be given an incentive award or administrative leave for the following:

- **Increasing office efficiency.** Improving office processes that are time consuming, repetitive or a burden on the budget.
- **Exemplary performance.** Performance beyond the employee's job duties that requires extra effort and research to produce beneficial results.
- **Exemplary performance on team projects.** A project that requires performance beyond normal expectations. The group must work together as a unit to complete the project and provide results beyond the minimum requirements of the job.
- **Exemplary leadership and/or initiative beyond that normally expected in an individual's assignment.** This includes meeting emergency or unusual deadlines and/or a willingness to accept or perform new assignments that are not part of the employee's job duties.
- **Cost savings.** An employee may suggest or implement a procedure or system that will save costs in DAS or other agencies through more efficient methods.
- **Value enhancement.** An exceptional idea that can be demonstrated to significantly enhance the value or function of the department's processes, image or assets owned by the state including physical space or environmental improvements that benefit employees or the public.

- **Public and employee relationships.** When an employee continually exceeds customer expectations by exhibiting responsiveness, reliability, empathy and flexibility. Provides knowledgeable, courteous services that convey trust, competence and confidence or develops an exceptional idea that leads to improvement in personal and human relationship areas.

Cash Incentives Received by Random Sample of 50 Employees

We randomly sampled 50 employees from DAS; 74 percent of them (37 individuals) received cash incentives during fiscal year 2003:

- A total of 94 incentive awards were granted, totaling \$9,750.
- The range of the 94 incentive awards was from \$10 to \$550.
- The average amount of the 94 incentive awards was \$103.72.
- The average number of awards per person was 2.54.
- The average total incentive amount for those receiving was \$264 per person.
- The average total incentive amount as a percentage of salary was 0.73 percent.
- The total incentive amount as a percent of salary ranged from .04 to 3.63 percent.

Figure H1. Incentives by Dollar Amount and as a Percentage of Salary in Sample of 50 DAS Employees. This figure shows that 74 percent of employees (37 employees) in the sample received incentives. This figure summarizes on a per person basis.

Employee's Total Incentive Amount	Number of Employees	Employee's Total Incentive Percent of Salary	Number of Employees
\$0	13	.00%	13
\$1 - \$100	11	.01 - .99%	25
\$101 - \$250	10	1.00 - 1.99%	8
\$251 - \$500	12	2.00 - 2.99%	3
\$501 - \$750	3	3.00 - 3.99%	1
\$750 - \$1000	1		
> \$1000	0		
Total	50	Total	50

Documentation for cash incentives awarded generally included enough explanation to show whether the award was justified by showing exceptional effort.

High Dollar Incentives

Listed below is information derived from our review of the 10 employees who received the most in total cash incentives for fiscal year 2003:

- Incentive totals for ten individuals ranged from \$1,270 to \$2,005.
- Range as a percent of salary was 2.43 to 5.78 percent.
- The average percent of salary was 4.05 percent.

In our review of ten employees given high dollar incentives (either one-time larger amounts or multiple smaller amounts), we were able to see justification for the incentives based on the documentation in all instances.

**Other Administrative (OA) Leave Received
by Random Sample of 50 Employees**

We reviewed administrative leave for the same random sample of 50 employees that we used to review cash incentives. As shown in Figure H2, there were several reasons for administrative leave in the sample.

Figure H2. Administrative Leave Granted to the 50 Employees Sampled at DAS for Fiscal Year 2003. This figure shows that the majority of hours granted were for the Governor’s holiday leave.

Leave Reason	Total Hours	Recipients	Average Hours	Percent of Total
Governor’s Holiday Leave	174	44	4.0	59.0%
Discipline	72	1	72.0	24.4%
Funeral	24	2	12.0	8.1%
Incentive in lieu of cash	20	2	10.0	6.8%
Unknown OA	5	1	5.0	1.7%
Sample Total	295			100.0%

In our review of the administrative leave granted to the 50 employees sampled at DAS, we found that the majority of leave was attributed to the 4 hours of holiday leave from the Governor.

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Appendix I

Incentives Sample:

Department of Human Services

This appendix contains three sections: Agency incentive policies, cash incentives received by DHS employees, and other administrative (OA) leave received by a random sample of 100 employees.

Agency Incentive Policies

The incentive policies that DHS had in place in fiscal year 2003 provided purpose and eligibility requirements for incentive awards. Incentive policies also provide procedures and guidelines for all forms of incentive awards. DHS allowed administrative leave to be granted as an incentive award up to 40 hours per fiscal year. The type of cash incentive awards that DHS allowed was as follows:

- Instant Awards: Instant awards, ranging from \$50 to \$300, shall be approved by those authorized by Division/Office Directors to Department employees whom they determine deserve special recognition.
- Division/Office Recognition Awards: Ranging from \$301 to \$1,000, shall be approved by Division/Office Directors to recognize employees whose performance results in significant cost savings or program effectiveness.
- Department Recognition Award: Awards ranging from \$1,001 to \$4,000 shall be approved by the Executive Director recognizing employees whose performance results in the Department or State receiving positive attention or other acts that have great consequence over a sustained period of time.

DHS amended their incentive policies in July 2003 and DHRM approved their policies on July 22, 2003. The new policies define agency head or approved designee, defines criteria and eligibility for incentive awards, subjects all incentives to the availability of funds, and limits administrative leave in lieu of cash as an incentive award to 24 hours per fiscal year. The new classifications for cash incentive awards eliminated the instant awards, the new cash incentive award types are listed below:

- Division/Office Recognition Awards: Awards ranging from \$50 to \$500 shall be approved by Agency heads or their approved designees to recognize employees whose performance meets one of the criteria in Section B of this policy.
- Department Recognition Award: Awards ranging from \$501 to \$4,000 shall be approved by the Executive Director recognizing employees whose performance meets one of the criteria in Section B of this policy and results in positive outcomes over a sustained period of time.

Cash Incentives Received by DHS Employees

There were only four employees (out of about 4,600) who received cash incentives during fiscal year 2003:

- Total incentive amounts for the four individuals were \$25, \$100, \$1,000, and \$1,008.
- The average total incentive amount as a percentage of salary was 1.3 percent.
- The total incentive amount as a percent of salary ranged from .08 to 2.66 percent.

Of the two larger amounts, one involved a grievance settlement and the other was to an employee who took on additional duties and responsibilities. The employee temporarily assumed a supervisory role because the regular supervisor was on extended leave. (Note: The reason there are so few incentives is that the incentive awards program at DHS has been suspended by the executive director of DHS pending the future budget outlook.)

Other Administrative (OA) Leave Received by Random Sample of 100 Employees

We reviewed administrative leave for the same random sample of 100 employees that we used to review cash incentives. As shown in Figure I1, there were several frequent reasons for administrative leave in the sample.

Figure I1. Administrative Leave Granted in Sample of 100 Human Services. The majority of leave granted in the sample, 58 percent, was for incentives.

Leave Reason	Total Hours	Recipients	Average Hours	Percent of Total
Incentive in lieu of cash	486	35	13.9	57.9%
Governor’s Holiday Leave	257	64	4.0	30.6%
Funeral	88	4	22.0	10.5%
Miscellaneous OA	8	1	8.0	1.0%
Sample Total	839			100.0%

DHS is currently being sued by a large group of employees in one of its divisions, the Office of Recovery Services (ORS). This group of employees is suing the department because cash incentives and incentive hours granted in lieu of cash were not granted—incentives which the employees claim were earned. ORS had an employee incentive plan for fiscal year 2003 as a means to motivate and encourage staff to meet the goals of the agency and the expectations of customers, and to recognize and reward employees and groups who make significant contributions to the success of the agency. DHS suspended all incentives because of budgetary constraints and this resulted in the above mentioned legal actions. A long-standing practice of the office is to not review items in litigation. Therefore, we will not offer comment. However, our summary figure shows some incentive hours had been granted under this program prior to it being suspended by the executive director. The miscellaneous OA leave was granted to one employee for “investigations, drug testing, hearings, or fitness for duty.”

Agency Responses

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February 12, 2004

Mr. Wayne Welsh, Auditor General
Office of the Legislative Auditor General
130 State Capitol
Salt Lake City, Utah 84114

Dear Mr. Welsh,

Thank you for the opportunity to respond to your office's Performance of Statewide Employee Incentives (Report No. 2004-04). We appreciate your detailed review of these awards and agree with your belief that state incentive and performance awards are essential for a healthy work environment. We also agree that during tight budget times, the state's scarce fiscal resources should be managed appropriately. With the State's budgets being excessively limited for the past couple of years, we feel that it is appropriate that your findings have determined that the State's incentive awards have been reduced by 48% in fiscal year 2003.

In response to your offices Review of Incentive and Performance Awards (ILR 2003-D) last year, the Department of Human Resource Management (DHRM) instituted rule changes on July 1, 2003 to modify and clarify the appropriate use of incentive awards. We are glad to see that the current audit has determined that DHRM's rule changes have "improved upon processes and controls for issuing a cash incentive award compared to the 2002 DHRM rules."

The current audit has made five recommendations to DHRM to further modify and clarify its rules regarding incentive awards. DHRM appreciates that independent look into the effectiveness of DHRM rules the audit has provided. We feel that the recommendations from the audit have merit and we will evaluate the most effective way to address the auditor's concerns during our next rule making session for implementation on July 1, 2004. Specifically, the recommendations from the audit and DHRM's responses are as follows:

Recommendation #1

We recommend DHRM clarify the rules for "incentive leave" by including the requirements of awarding such leave as part of its Incentive Award Rule.

Response #1

Currently, criteria for "incentive leave" are found in DHRM's Agency Incentive Policy Review Form. Additional rules for "incentive leave" can be found in DHRM rule R477-7-7(1)(c). However, based upon the Auditor's recommendation DHRM will evaluate and consider adding the criteria for the granting of "incentive leave" to DHRM rules during the next rulemaking session.

Recommendation #2

We recommend DHRM consider limiting, in rule, the number of incentive leave hours granted per person, per fiscal year.

Response #2

Again, based upon the Auditor's recommendation, DHRM will evaluate and consider placing a limit on the number of "incentive leave" hours in DHRM rule during next rulemaking session.

Recommendation #3

We recommend DHRM inform agencies who have granted incentives in fiscal year 2004 while having unapproved incentive policies, that they do not comply with state rule.

Response #3

Some of the agencies have since submitted their Incentive Policies for DHRM's review. However, based upon the Auditor's recommendation DHRM will notify agencies that are out of compliance and will develop an annual process to notify agencies that are out of compliance.

Recommendation #4

We recommend that DHRM review the validity of incentive award programs that do not appear to be based on job performance, such as sick leave incentives and retirement incentives. We further recommend that if DHRM determines that factors other than job performance should qualify for incentive awards, that rules be amended to clearly allow for these awards.

Response #4

DHRM will analyze these programs to determine their appropriateness. If they are determined to be appropriate, DHRM will amend its rules to clearly authorize these awards.

Recommendation #5

We recommend DHRM provide more guidelines on acceptable documentation for incentives to ensure that evidence of cost savings and/or exceptional effort is provided.

Response #5

Documentation for cash awards is already required in DHRM rule R477-6-5(1)(c). DHRM will consider adding similar documentation requirements to DHRM rules covering "incentive leave." However, the State's current payroll system has been designed to accept codes for all types of administrative leave that, if reported properly, should help clarify the use of "incentive leave."

Sincerely,

Kim Christensen
Executive Director, DHRM



State of Utah

Department of
Workforce Services

OLENE S. WALKER
Governor

GAYLE F. MCKEACHNIE
Lieutenant Governor

RAYLENE IRELAND
Executive Director

DARIN BRUSH
Deputy Director

JAMES C. WHITAKER
Deputy Director

February 11, 2004

Wayne Welsh
Auditor General
130 State Capitol Building
Salt Lake City, Utah 84114-0151

Mr. Welsh,

Thank you for the opportunity to respond to the Exposure Draft of **A Performance Audit of Statewide Employee Incentives (Report No. 2004-04)**. Attached are my comments relative to specific elements of the report.

The Department of Workforce Services invested considerable effort during calendar year 2003 in reviewing and updating our incentive policy. Elements of the policy that were added included a provision for awarding administrative leave in lieu of cash incentives, procedures for awarding non-cash incentives, mandatory expiration dates for all awards authorized, mandatory review and authorization by a Director, and guidance that all awards (cash, non-cash, and administrative leave) must be awarded judiciously. Our policy is fully in line with DHRM guidance. I believe that these changes will further enhance what was already a solid incentive program.

I do want to express my support for the views expressed on page 2 of your report that incentives, especially during lean times, are critical to maintaining morale and helping to motivate and retain a quality workforce. This department is routinely scrutinized by our federal partners who provide the source of funding for our programs and for administration of those programs, including salaries and incentives. While there are always ways to improve, we have never been found to be out of compliance or otherwise suspect with regards to these types of personnel issues. I am confident that the Department of Workforce Services fully embraces the tenets of sound and prudent management of entrusted assets.

Utah!

As a final point, Executive Directors must have the latitude to make decisions that make good business sense. I have addressed this point on the attached comments with my thoughts regarding a sick leave incentive program. Use of such a program, can be cost effective and at the same time enhance the service provided to our clients.

Sincerely,

A handwritten signature in cursive script that reads "Raylene G. Ireland".

Raylene G. Ireland
Executive Director

1. The Department of Workforce Services is currently evaluating the merits of a sick leave incentive program through a pilot program in two of our regions to decide whether a sick leave incentive would prove to be beneficial to the entire department. The decision to investigate a possible sick leave incentive is based primarily on a business model that weighs the small financial incentive provided to employees against the benefit to the department, both financially as well as through enhanced service to customers. Our pilot program is based on the following information:

For the period of Fiscal Years 2000 through 2002, sick leave utilization in the department averaged 85,077 hours

- Based on an 8-hour workday, that equates to 10,637 lost work days per year
- Based on 1,800 employees, that equals just over 47 hours of sick leave used per employee each year

For Fiscal Year 2003 (at the time of our study) only 6-months of data were available, but that data revealed the following:

- 1,236 employees used sick leave during the 6-month period
- Total sick leave hours used equaled 49,040 – annualized that is 98,080 hours
- The 6-month cost for sick leave hours used was \$788,005 – annualized to \$1,576,009
- Based on an 8-hour workday, that equates to 12,260 lost work days in 2003

Data obtained from the Department of Administrative Services (DAS) for the period of calendar years 1993 through 2002

- A sick leave incentive program was instituted in DAS in 1994 and lasted through 2001 when budget shortfalls caused the program to be suspended
- The overall use of sick leave decreased by an average 28% during the life of the program
- When the program ended sick leave use increased by 26% in one year
- The number of employees using no sick leave increased by an average 31% during the life of the program
- During the life of the program, 58% of employees on average used no sick leave
- In FY 2001 (only year for which this particular data was available) 83% of DAS employees participated in the program to some degree (received between \$50 and \$250). In that same year, 61% of employees used no sick leave at all

Nominal as it was, the financial incentive offered through the DAS program demonstrates that employees responded to the program favorably. Following are DWS projected costs and benefits based on the DAS experience – all figures use a baseline of 1,800 employees and the average sick leave used from Fiscal Year 2000 through 2002.

- If 58% of our employees received the maximum sick leave incentive of \$250, the total cost would be \$261,000 annually
- Based on the DAS model, reducing overall sick leave use by 28% would equate to 2,978 work days recovered annually
- Based on an average salary of about \$16 per hour, paying employees for the 2,978 days of sick leave used would cost the department \$381,184
- Benefit is measured in two elements:
 - First, greatly enhanced provision of services to needy customers, and¹
 - Second, the cost to the state is \$120,184 less than the cost for employees using sick leave

I contend that a sick leave incentive program can be a valuable tool for motivating employees to be at the job site and as such is a worthy act in the context of job performance – the employee realizes a minimal benefit, but the state is getting more in both money saved and services provided. Simply stated, this is potentially a good business decision for the Department and for the State.

2. On page 46 of the report, it is stated; **“DWS no longer allows peer-to-peer incentives because they lacked controls and were typically rewarding only normal job duties.”**

As written, the statement erroneously implies that this Department acknowledges widespread awarding of incentives that were not appropriate. In fact, these types of awards were eliminated for two reasons. First, we felt it was not the most productive and beneficial way of recognizing performance. Small awards of \$25 coming from fellow employees are not as meaningful as the recognition coming from supervisors and managers. Second, we needed to tighten our controls because of DHRM guidance that only Directors may authorize incentives. Our policy allows for employees to nominate other employees for awards but with this new guidance the appropriate director must approve the nomination and issuance of the incentive. Therefore, a peer initiated award would be covered already as a Class I award and a separate category of peer-to-peer awards is not pertinent.

Additionally, as you point out in your report, DHRM rule did not require documentation at all for peer-to-peer awards due to their nominal value (\$25). Therefore, missing documentation is not sufficient reason for suspecting awards were typically for normal job duties. Neither should a few anecdotal examples be sufficient to make the statement that awards were typically for doing normal job duties.

3. The information presented on page 54 of the report under the paragraph heading **Cash Incentives Received by Random Sample of 100 Employees** is misleading.

¹ This Department provides services to exceedingly large numbers of public customers on a daily basis. Having workers at the job site is critical to providing those services.

To begin, I suggest that an analysis of the entire population of data for cash incentives for the period reviewed is more appropriate as that data is readily available from the data warehouse. Moreover, a sample of 100 events from the approximate 10,000 events in the database provides an inaccurate picture.

I suggest it is important to portray a more accurate picture regarding the quantity of incentives awarded at each dollar amount. The table at the bottom of page 54 (Figure A1) incorrectly depicts that Department incentive awards were most prevalent in the dollar range of \$100 to \$500. An analysis of the entire population of data shows that 81 percent of all awards were for \$100 or less. The following information more accurately portrays the picture of incentives paid within the Department of Workforce Services:

Incentive Amount	Number of Occurrence	Percentage of Total
\$0 to \$25	3,833	38%
\$26 to \$100	4,294	43%
\$101 to \$1000	1,854	19%
> \$1000	6	< 1%

The small sample presented on page 54 reportedly contained one or more of the very few larger dollar amount incentive awards, thereby skewing the average upward and presenting an inaccurate picture.

February 10, 2004

Wayne L. Welsh, Auditor General
Office of the Legislative Auditor General
130 State Capitol
PO Box 140151
Salt Lake City, UT 84114-0151

Dear Mr. Welsh:

RE: Incentive Award Audit

This letter serves as the Department of Health's written response to the incentive award audit findings. The Department will respond to all four areas contained in the audit report.

1. Agency Incentive Policy: As mentioned in the audit report, the Department of Health revised its incentive award policy in November 2003. The policy was revised to meet the requirements issued from the Department of Human Resource Management (DHRM). The newly revised Department policy addresses the requirement for additional documentation when issuing an incentive award. The policy further defines acceptable reasons to issue an incentive award and requires each Division and Office to adopt specific criteria for issuing awards within their Division or Office. The most significant changes to the policy are the additional documentation requirement for administrative leave and the addition of the high-level performer award.
2. Cash Incentives Received - Random Samples: The audit report outlines concerns that documentation was not sufficient for the small dollar cash incentives that were sampled. The Department recognized the need for additional documentation of awards and revised the Department policy accordingly. All awards must be submitted on approved incentive award forms with the justification clearly outlined. The awards must also follow

the criteria established by each Division and Office. Further, the Department's executive staff will closely monitor the reasons awards are issued.

3. High Dollar Incentives: The audit report identified ten employees in fiscal year 2003 that received awards totaling over \$1000. For two of the ten, documentation had been completed but could not be located during the audit review. An internal review of these two awards confirmed that they were given for reasons that were appropriate and consistent with the existing policies at the time. The Department has reviewed its internal process for tracking incentive awards documentation and has made the necessary changes to ensure proper record keeping. Incentive award forms have been modified to require written documentation for all cash awards. Further, the Department has made policy changes to limit the number of high dollar incentives issued during a fiscal year.
4. Other Administrative Leave Received – Random Sample: The audit report identified that administrative leave was taken but the reason it was issued was not clearly documented. Most administrative leave that was issued without documentation was issued as an incentive award or issued as time off with pay pending the outcome of an investigation or disciplinary action.

The Department clearly identified a need to document administrative leave as an incentive award and has changed the policy and the requirements as necessary. New forms have been introduced and are required when issuing administrative leave as an incentive award. Further, the Department will produce monthly reports for the executive staff to closely monitor the administrative leave activity and the reasons for issuing an award.

The Department of Health suspended all incentive award activity for many months while an internal committee reworked the incentive award policy. Awards for activity that occurred during the suspension period were required to comply with the new policy. The new policy addresses many of the concerns raised in the audit report and further clarifies documentation standards. As part of releasing our new incentive policy, the Office of Human Resource Management provided training to managers and supervisors regarding the policy changes as well as introducing other tools to recognize employees other than case and leave incentive awards. In addition to the policy revisions, a tracking mechanism has been adopted to ensure awards are monitored and proper documentation exists for all awards.

Wayne L. Welsh
February 10, 2004
Page 3

In summary, the management team of the Department of Health recognizes the value of Department employees and wants to maintain a mechanism to reward employees that demonstrate exceptional performance. The Department of Health has developed an incentive award policy that meets the standards set forth by DHRM and further clarifies the documentation and reporting requirements in the Department.

We appreciate the opportunity to respond to the incentive award audit findings and acknowledge the efforts of the Legislative Auditor General.

Sincerely,

Scott D. Williams, M.D., M.P.H.
Executive Director

February 11, 2004

Wayne L. Welsh
Auditor General
HAND DELIVERED

Dear Mr. Welsh:

Thank you for the opportunity to review and comment on your Performance Audit of Statewide Employee Incentives (Report No. 2004-04). I also appreciate the opportunity which I had to clarify some aspects of the report, particularly the different bonus programs that our agency employs.

I believe that with an understanding of the two distinct bonus programs which we are eligible to use, it probably would be more informative if the body of the report also separated the discussion and presentation of averages into the two categories of employees: those subject to DHRM rules and those not. This method has been employed in the Appendix, and I believe that it more accurately reflects the situation at our office. To lump them together into a combined average exaggerates the incentive bonuses earned by those employees subject to DHRM rules. For example, in Figure 2, if the management bonuses were excluded from the average, the average bonus/employee would fall within the previous DHRM guidelines, and would be in a range consistent with several other agencies at the top of the list. Although this is partially explained in the paragraph following the Figure, I suspect that the casual reader will remember the data in the Figure and not the following explanation.

Please don't hesitate to contact me if you desire further discussions or clarifications.

Sincerely,

KEVIN S CARTER
DIRECTOR

February 16, 2004

Wayne L. Welsh
Auditor General
130 State Capitol
Salt Lake City, UT 84114-0151

Dear Mr. Welsh,

Thank you for the review your staff provided regarding the audit of statewide employee incentives. As a recent addition to state government from the business world, I strongly support the use of financial incentives as a management tool.

In any organization, the attitudes and performance of employees are key deterrents to success. A properly crafted and executed employee incentive program can be a significant aid to management as it tries to build a high performance work culture. Even though awards are relatively small as a percentage of the employee's total compensation, they can send a strong message not only to the recipient but also to the rest of the team. Managers can use this tool to highlight and support the kind of attitudes and performance they would like the entire team to emulate.

Like any management tool, the impact of incentive systems is a result of how well the tool is used. It would be unfortunate if the Utah Legislature decided to eliminate this valuable tool because some organizations had not used it effectively. The state and its constituents would be better served if we keep the tool and provide additional training on how to use it properly.

Please let me know if you have any additional questions.

Sincerely,

David G. Harmer
Executive Director

February 9, 2004

Wayne Welsh, CPA
Auditor General
Office of the Legislative Auditor General
130 S. Capitol
Salt Lake City, UT 84114-0151

Mr. Welsh:

At your request we have reviewed the Exposure Draft of your report, A **Performance Audit of Statewide Employee Incentives** (Report No. 2004-04). We do not take issue with any of the findings. Furthermore, I would like to commend your staff members for the professional and responsive manner in which they conducted the audit.

Thank you for the opportunity to provide input.

Mike Chabries
Executive Director