

Chapter I

Introduction

Our review of the Department of Human Resource Management (DHRM) found that the department should comply with the Utah Code by reinstating expired delegation contracts with the operating agencies and performing quality assurance reviews as part of those contracts; promulgating rules for some commonly used practices that are currently without written guidelines; providing for increased system-wide consistency in some important components of the recruitment and selection function; improving the compensation function; and adjusting its approach to classification. In addition, we believe the Legislature needs to recognize that the state's merit pay system must be funded consistently at levels that encourage employees to perform efficiently and effectively and that fulfill the intent of the state's policy as stated in the Utah Code (67-19-2(3)) to "encourage excellence and strengthen the system."

Although improvements can be made in the state's human resource management system, we believe that DHRM and operating agencies are generally doing a good job, meeting most of the Code mandates, following state human resource management rules, and helping agency managers recruit and keep a quality workforce. Our report is primarily aimed at refinements that should improve the overall operating efficiency of a large and complex service system.

DHRM has been set up by the Utah Legislature as a central personnel management agency with provision to delegate certain functions to agencies under specified conditions. According to the Utah Code (67-19-2), "it is the policy of this state that the Utah state personnel system be administered on behalf of the governor by a strong central personnel agency. Any delegation of personnel functions should be according to standards and guidelines determined by the central personnel agency and should be carefully monitored by it." In addition to DHRM, 11 of the largest operating agencies currently have their own human resource offices performing a variety of human resource functions. The system is therefore decentralized and somewhat complex to manage and coordinate, and, as we will discuss, at present has no formal delegation agreements in place.

The Code (67-19-8) specifies that DHRM is responsible for certain human resource functions that cannot be delegated to operating agencies. These include the design and administration of the state pay plan; the design and administration of the state classification system and procedures for determining schedule assignments; position classification studies, including periodic desk audits (except in certain circumstances under a delegation agreement); maintenance of registers and certification of eligible applicants; monitoring of state agency personnel practices to determine compliance with state personnel guidelines; and the maintenance of central personnel records. There are some functions for which state agencies are responsible (Utah Code 67-19-9). These include writing initial job descriptions, recommending position classifications and grade allocations, selecting qualified applicants for

appointment and promotion to vacant positions, conducting performance evaluations, disciplining employees, and maintaining individual personnel records.

DHRM is functionally organized into the areas of Compensation, which includes classification, compensation, and benefits, Employment and Training, which includes recruitment and selection, human resource development, and Administration. The department was authorized for 37.25 FTEs in fiscal year 1992, and was appropriated a budget of \$1,874,800. Operating agencies' human resource office staffing and budgets are separate from and in addition to DHRM's.

Audit Scope and Objectives

We conducted an operational review of selected areas of the state's human resource management system, looking at how DHRM serves the agencies for which it has primary responsibility. We also visited several operating agencies' human resource offices to assess how these components of the statewide system serve their agencies and coordinate with DHRM to achieve a given level of consistency throughout the state. Specifically, we reviewed the following areas:

1. Determine whether DHRM and operating department human resource offices meet the mandates of the Utah Code, especially regarding the existence of delegation contracts, DHRM monitoring of the agencies' human resource activities, and overall policy consistency;
2. Determine whether the important components of a public recruitment and selection system are in place and sufficiently documented at DHRM and operating agencies to ensure the existence of a fair and open public recruitment process;
3. Determine whether classification and compensation function efficiently to ensure that state agencies maintain a qualified, properly classified workforce and that employees are compensated fairly.

In addition, we were asked to determine the extent of Fair Labor Standards Act (FLSA) liability incurred by the state for unpaid overtime compensation. Since DHRM was in the process of calculating and paying the owed overtime during our audit, we did not duplicate their work, but instead monitored their progress. As of September 25, 1992, total overtime paid by the state to employees was \$2,902,200, about \$307,300 above the amount estimated during the 1992 legislative session.

To assist us in reviewing the state's human resource management system, we retained the services of a human resources management consultant, Michael Martinez, Esq.

Chapter II

Compliance Issues Need to Be Addressed

In reviewing the state's human resource management system for compliance or policy oriented issues, we found that some compliance issues need to be addressed. First, delegation agreements with operating agencies required by the Utah Code should be reinstated. Operating without contracts in place creates the possibility of inconsistent policy application across the human resource system; therefore, reinstatement should include a requirement for quality assurance reviews of operating agencies. Second, we found that two commonly used practices are used without any written rules to ensure a given level of consistency. DHRM should formulate general rules to regulate the use of underfilling positions and giving special salary adjustments.

Contracts with Operating Agencies Should Be Renewed

Although the Utah Code indicates that the director of the Department of Human Resource Management (DHRM) may delegate to operating agencies some human resource management functions, DHRM has allowed the delegation agreements with agencies to expire. Without such written agreements, agencies should not be performing personnel functions other than those specifically listed in the Code as being the responsibility of the agencies. To comply with Code requirements, DHRM needs to reinstate written delegation agreements with those operating agencies having a human resource office, or not allow agencies to perform delegatable functions.

Code Requires Written Delegation Agreements

According to the Utah Code 67-19-10, the director of DHRM may delegate to state agencies any function not included in 67-19-8 (listed in Chapter I) as a function not to be delegated. "An agreement to delegate functions to a state agency shall be in writing and shall contain the following:

- (1) a precise definition of each function to be delegated;
- (2) clear descriptions of standards to be met in performance of each function;
- (3) provision for periodic administrative audits by the office; and

- (4) a date on which the agreement shall terminate if not previously terminated or renewed."

Our consultant indicated that only those functions described in the Utah Code as functions for which state agencies are responsible may legally be performed without delegation agreements in place. As previously noted, these functions include writing initial job descriptions, recommending position classifications and grade allocations, selecting qualified applicants for appointment and promotion to vacant positions, conducting performance evaluations, disciplining employees, and maintaining individual personnel records.

Lapsed Contracts Should Be Renewed

The Utah Code requires written delegation agreements with agencies and although such contracts existed in the past, delegation agreements with agencies have expired without renewal. None of the agency human resource offices with which we dealt had current contracts in place. The contracts had expired without renewal. According to the executive director of DHRM, initial attempts at performing the annual compliance reviews called for in the Code created such problems between the agencies and DHRM that DHRM decided to try to get voluntary compliance from agencies and let the contracts lapse.

When we questioned agency human resource directors about the lack of contracts, they told us they were operating in compliance with the provisions of the Code to determine what functions they could and could not perform. In a sample of four operating agencies, our fieldwork found that agencies are generally abiding by Code stipulations as to the functions they can perform. Further, we found that the agencies are complying with state human resource management rules even without the review supposed to be performed by DHRM as part of a contractual arrangement.

However, we did find some examples of agencies handling functions they should not have been doing. One example, to be dealt with in more detail in a later chapter, was an agency conducting a salary survey in which it had a vested interest in the outcome. As another example, some agencies' human resource staff have assisted in conducting classification studies, including desk audits, which according to the Code 67-19-8(3) may only be done consistent with a delegation agreement. Because instances have occurred where agencies perform functions that should not be delegated or should occur only within the boundaries of a written delegation agreement, written agreements that guide the activities of agencies in delegable areas should be renewed. Further, delegation agreements should include standards of performance for all agencies in the interests of system-wide consistency of practice.

The Code provision regarding contract agreements includes a requirement for an administrative audit of the operating agencies' human resource offices by DHRM. The purpose of such an administrative audit is to check operating agency human resource offices for compliance with the contract and Code stipulations. Since the contracts have lapsed,

DHRM has not conducted any reviews or audits of agencies. DHRM has not fulfilled its responsibility to act as a quality control point for the statewide human resource system.

To comply with the Code, renewed contracts must include some method of oversight in the contract provisions. We believe that DHRM can and should take a leadership and coordinating role in the state's human resource management system through the oversight function, consistent with the Code-specified concept of a strong central personnel agency that may delegate certain functions to operating agencies. To foster improvement in the statewide system, oversight by DHRM could take the form of quality assurance reviews which would identify practices in a given agency that could improve the system statewide and would also maintain a given level of consistency throughout the agencies in the state. DHRM should review procedures and documentation of delegated functions for compliance at each agency on a regular basis, but should also focus on improving the human resource management system by identifying practices or ideas used by an agency that could benefit other agencies. In general, the intent of reviews within the renewed contracts would be a beneficial arrangement enabling DHRM, in cooperation with agencies, to identify practices that could be adopted by all agencies to foster overall improvement of the statewide system.

In following chapters, references will be made to procedural improvements that can be made in the state's human resource management system. Although agencies generally have been following the rules even without oversight, both DHRM and operating agencies can make improvements in certain procedures. Also, for quality assurance reviews to be effective in assisting agencies to do a better job, improving the level of documentation of certain procedures both in DHRM and in operating agencies' human resource offices will be needed. Standards on what documentation must be kept available at agencies for review by DHRM should be developed and included in contract language. For example, a standard could be written detailing the minimum documentation that should be kept in recruitment files in every agency. A minimum level of standardization should facilitate DHRM's quality assurance reviews and minimize liability to the state by adequately documenting the fairness of hiring practices, but still allow agencies flexibility to set up their own specific procedures.

Renewing the contracts can have an additional benefit to the state's human resource management system. The Code (67-19-6(1)(f)) mandates that the director of DHRM, in cooperation with other agencies, should conduct research and planning activities to determine and prepare for future state personnel needs, develop methods for improving public personnel management, and propose needed policy changes to the governor. With the decentralized nature of the human resource system, data and input from agencies are crucial for DHRM to plan its cycle of activities to ensure that volatile classes are studied, important issues are addressed, and so on. Therefore, we believe that to facilitate planning the contracts should be written to include a cooperative data collection and analysis effort. For example, as will be discussed in a later chapter, agencies should be providing DHRM with information on recruitment and retention problems and rapidly changing job classes in their agencies. In this way classification studies can be conducted as needed to ensure that jobs are properly catego-

rized and stay current with market pay rates. This planning for change will help the state to attract and keep qualified employees.

Recommendation

We recommend that DHRM reinstate delegation contracts with those operating agencies that have human resource offices, and include in the contract a provision calling for quality assurance reviews, requirements for documentation of delegated activities, and provision for data collection and reporting by agencies to DHRM on trends and issues needing attention.

Some Practices Need Rules To Ensure Consistency Statewide

DHRM should promulgate rules to guide the use of underfilling in recruitment and selection and special salary adjustments in the state human resource management system. The Utah Code 67-19-6(1)(d) gives the director of DHRM the responsibility to adopt rules for personnel management. However, no policies or rules currently exist to ensure that these practices are implemented in a uniform way by the various agencies in the state. The lack of rules carries a risk of disparate treatment of employees. Once rules have been promulgated, compliance should be monitored as part of DHRM's quality assurance reviews.

The Practice of Underfilling Positions Needs Rules

Although underfilling positions is a widespread practice in state government, there are no statewide rules or regulations in writing to provide uniform guidelines for agencies to follow. Rather, we found that for the most part, control and management of underfilling is left up to immediate supervisors. The level of supervisory control varies in agencies, with some employees given promotional guidelines which were developed at the supervisory level while others are given nothing in writing. We also found that agency human resource offices generally do not provide any guidelines for this practice to employees or supervisors. Although underfilling positions can provide benefit to both agencies and employees involved, we are concerned that the lack of guidelines or rules may allow for unfair treatment of employees.

Underfilling is the practice of setting up a position at the working level, then hiring employees at the entry level for a period of time. To illustrate, a job classification may have several levels (entry, working, and senior, for example). With underfilling, a new position would be authorized at the working level, but advertised and filled at the entry level. The individual hired would be paid the entry level salary and expected to perform entry level duties. When the individual met the minimum requirements for the working level, including the minimum qualifications listed on the working level class specification and any others determined by the supervisor or agency, the employee would be eligible for promotion to the

authorized, working level. This allows for training at a lower salary rate and provides for promotion without going through DHRM for approval, since the position is already authorized at the working level. Some agency human resource staff have indicated they like underfilling because it allows for a promotional ladder in times when merit funds are restricted. Also, paperwork is avoided since the promotion does not need to be sent through DHRM for approval. DHRM's classification manager indicated to us that DHRM also appreciates the lack of paperwork involved.

Underfilling Positions Occurs without Rules or Guidelines. In the process of reviewing the use of underfilling in state government, we found a lack of written rules or guidelines on underfilling at DHRM and the operating agencies' human resource offices. Nothing in the Code addresses the practice of underfilling nor do state human resource management rules address the practice. A classification/compensation manual put together for DHRM analysts does not mention it, and a draft DHRM recruitment and selection manual merely mentions that underfilling should only be used from entry to working level. A 1980 memo sent from the then Office of Personnel Management (OPM) to the personnel manager of the Department of Health provides the only written guidelines we found on underfilling. This memo indicated that it was the policy of OPM to authorize positions at the working level, then give agencies the option of filling positions at the working level or any level lower than working in which there is an authorized title, grade, and class specification in the series. The memo indicated that one requirement was that the position being underfilled must be underfilled with the same title or a very closely related title at a lower grade level.

Discussions with human resource staff in the operating agencies we visited revealed that they do not have any written policies or guidelines on underfilling positions. One agency human resource director said he did not want to set up rules for his agency if DHRM had not done so for the state. Rather, agency human resource staff indicated they leave the management of underfilling up to line supervisors, who tend to use an informal system to determine when to promote employees out of underfilled positions. Essentially, the informal system entails the supervisor remembering that a given employee has been underfilling a position long enough, assessing whether the employee meets the minimum qualifications of the working level, then submitting a request to the agency's human resource office to process the promotion.

The Lack of Rules Carries the Risk of Unfair Treatment. Our concern is that the underfilling practice hinges on an unwritten system that has the potential for unintended unfairness or even deliberate abuse. There are no rules in place governing whether an employee is informed of the requirements to be promoted out of an underfill situation. There is no system to remind either human resource staff or supervisors when an employee has been working long enough to be assessed for meeting the minimum qualifications of the working level. If additional requirements that an employee must meet in order to be promoted to the working level have been developed, there are no rules that require the supervisor to inform the employee of such either verbally or in writing.

Inconsistency or lack of written rules allows for practices ranging from situations where clear expectations are laid out by a supervisor, to a supervisor who forgets that an employee is ready for promotion, to a supervisor who tries to get his employees upgraded earlier than

allowed based on working level minimum qualifications. Thus, some employees know what to expect and when they can expect to be considered for a promotion, while others may or may not be aware of the requirements for promotion.

We tested for possible unfair treatment of employees in an underfill situation by reviewing the employment histories of a sample of underfills in the agencies we reviewed. We found several examples of employees who have been in underfill situations longer than the required time in grade, according to the minimum qualifications on the applicable working class specification, but who had not yet been promoted. When we pointed these out to agency human resource staff, the cases were checked and in most cases, promotion paperwork was put into motion. These cases indicate that there are times when an underfilling employee is due or overdue for a promotion but the action has not been initiated for some reason. Rules should be developed and include a review mechanism to determine if and when it is appropriate to promote underfilling employees; further, it is important for the review procedure to ensure that employees are ready for promotion, because some human resource directors told us that some supervisors have tried to get employees promoted early in order to get more workers up to the full working level. However, our sampling found that employees promoted early had previous experience elsewhere that was counted toward the necessary experience for promotion.

At one agency we found that some positions have been set up at the working level and underfilled, although the supervisors indicated to the human resource staff they had no intention of using the positions as underfills. The supervisors' point was that the position was filled at the proper entry level, and the incumbents would not be moved up to the working level. According to the human resource director of that agency, DHRM's policy of setting up positions at the working level was not what the agency wanted in these cases; however, DHRM's response is that the agency had no objections when the positions were classified at the working level. This scenario points out one area where the existence of guidelines and policies on underfilling might have prevented some confusion. There should be some method of communicating the agency's wishes on whether or not to set up a position to allow underfilling.

A Few Supervisors Have Provided Written Guidelines. We found that some supervisors have developed written guidelines on promoting out of the underfill levels so that their employees know what to expect. For example, a Department of Environmental Quality (DEQ) supervisor has written promotional guidelines that he shares with new employees so they know what experience they need to have in addition to the minimum qualifications of the working level. Family support supervisors in the Department of Human Services (DHS) have developed written guidelines called competencies for family support workers that must be met for promotion to occur. According to DHS human resource management staff, the competencies are provided to new employees so they have an idea of the type and amount of experience they must obtain in order to qualify for a promotion. In contrast, according to the human resource staff in other agencies, no specific written guidelines are in place for their underfills, other than the class specifications for the working level of a given job.

Finally, feedback from human resource staff in agencies confirms our feeling that rules on the practice of underfilling are necessary. While one human resource director told us underfilling is a time and money saving measure, another told us it is subject to abuse by supervisors. Since underfilling has both positive and negative aspects, we recommend the development of rules requiring agencies to provide written criteria or requirements to employees who are hired into underfilled positions. Rules should provide employees with the necessary information to determine when they meet the requirements for promotion, especially if additional requirements exist beyond the minimum qualifications of the working level.

Special Adjustments Are Widely Used Without DHRM Rules

Another practice used by the departments we reviewed, that of giving special salary adjustments, also has no statewide rules or regulations to ensure consistent application and fair employee treatment. To minimize the risk of disparate treatment among employees, DHRM needs to formulate rules which clarify when a special adjustment should be used. In addition, DHRM needs to monitor adjustments to ensure that they are consistently applied. Of particular concern are equity adjustments, since they are the most frequently used and most subjective in nature.

Equity Adjustments Need Rules to Reduce Subjectivity. Special adjustments are defined by DHRM as "an action to grant an adjustment in salary, correcting administrative and/or clerical payroll errors, and for other special circumstances authorized by DHRM." We are most concerned with those special adjustments designed to correct inequities, called equity adjustments. In the absence of rules, equity adjustments are approved on a case-by-case basis. According to the director of compensation at DHRM, decisions on granting equity adjustments are subjective and a judgment call; also, he indicated that it is difficult to refuse an agency's request for an adjustment because requests reaching DHRM typically have been screened and approved through the various levels of an agency and the department director has already signed off on the request.

Although rules have not been formulated, DHRM has listed informal guidelines on equity adjustments in memo form. However, these guidelines and instructions have not always been followed.

Valid reasons for an equity adjustment include new hires hired at or above the salary of an incumbent, employees not receiving the same percentage increase for a promotion or reclassification, and preferential treatment of one employee over another. Invalid reasons for an equity adjustment include paying employees different salary rates because of outstanding or exceptional performance or tenure; catch-up pay for salary freeze years; availability of surplus funds in the agency; and remunerating a supervisor paid less than a subordinate. Beyond these informal guidelines, there are no rules or specific reasons determining whether an equity adjustment might be appropriate.

In reviewing equity adjustments, we found an example where an agency requested a special adjustment to bring two employees to the same pay level. Reviewing the pay history of these two employees showed that the difference in pay resulted from one employee's exceptional performance. According to the memo's guidelines, this would not be a reason for granting an adjustment. However, DHRM approved this request and brought both employees to the same pay level. We have also found examples where DHRM has needed to request justification documents because they had not been provided, although the memo specifically requested that adequate documentation be provided with requests. We did not identify the level of problematic occurrences of equity adjustments in the state; however, since a limited review found problems, we feel the best approach would be to develop written rules for agencies to follow when requesting special or equity adjustments.

In addition to some examples of inconsistency we found, there are abuses of equity adjustments possible in the absence of rules. For example, because agencies must identify and request equity adjustments, employees in agencies which are the most aggressive in pursuing equity adjustments are most likely to receive them. Also, there is the possibility that managers pursue equity adjustments for their hardest-working or best-performing employees. This is at least partly in response to the perceived inadequacy of merit funding which causes managers to seek alternate ways (such as special adjustments) to reward employees.

To ensure that employees are treated as consistently and fairly as possible, DHRM should monitor special equity adjustments. Monitoring could occur within the quality assurance reviews once contracts with agencies are reinstated, but should also be done on a regular basis during the year.

Although we have focused on equity adjustments, there are other types of special adjustments, including those given to prevent inequities, those given to correct clerical or administrative errors, and those granted by legislative action. The development of rules is most important for equity adjustments that involve some level of judgment, but should also cover these other types of adjustments as necessary.

Recommendations

1. We recommend that DHRM develop and promulgate rules regarding the practice of underfilling positions, to include requiring written notification to employees of the requirements for promotion to working level. Procedures should be developed to include a review of underfilling employees by agency human resource offices to provide for timely assessment of readiness for promotion.
2. We recommend that as part of the annual quality assurance reviews to be conducted under the renewed contract provisions, DHRM should review the statewide use of underfilling to ensure fair treatment of employees.

3. We recommend that DHRM should develop and promulgate rules that more clearly define special adjustments and when it is appropriate to use them.
4. We recommend that DHRM review special adjustments to provide for consistent application where possible across the human resource management system.

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Chapter III

Recruitment and Selection Need More Consistency

Our review of recruitment and selection at DHRM and selected operating agencies found that the hiring of employees follows a fairly standard process across the system and most agencies comply with DHRM rules and policies in this area. However, some agencies conduct more steps as part of a recruitment than do others. Consistency in these areas is important to ensure the fair and equitable nature of the recruitment and selection process statewide and to assist state agencies in locating the best qualified applicants for state employment. In some cases, improvements in recruitment and selection would also prevent possible liability by meeting the mandates of the recent Americans with Disabilities Act. In addition, increased documentation of some of the critical steps in the recruitment process is needed to provide evidence of a fair and open recruitment system and to aid in the Code-mandated oversight by DHRM. Finally, some changes such as a broadening of the hiring rule of five and the elimination of the requirement that DHRM certify registers can improve the service delivery of the recruitment and selection system.

Recruitment Procedures Vary From Agency to Agency

Although DHRM and agencies are generally doing a good job in the recruitment and selection process, some improvements can be made. We found some important steps missing in the recruitment process in some agencies, including formal job analysis and formal evaluation methodology, preview of interview questions, and pre-approval of the salary offer to avoid inequities. Some of these missing steps are important in the overall framework of a fair and open public recruitment system designed to select the best qualified employees, and some steps also serve to minimize state liability by ensuring that a fair recruitment process is based on clearly job-related factors. Further, documentation of important steps in the recruitment and selection process is necessary to prove that the process was open and fair and to allow for DHRM review as part of a quality assurance process. Other recruitment procedures should also be reviewed for improvements, as will be suggested. Where appropriate, DHRM will need to disseminate rules regarding the performance of needed steps.

The recent passage and implementation of the Americans with Disabilities Act (ADA) will have some effect on how recruitment and selection occurs. The ADA prohibits discrimination against disabled persons, both those who are applicants for jobs and those already employed. Adding the implications of this legislation to the existing non-discrimination requirements of the Civil Rights Act may affect human resource management in various ways. In recruitment

and selection, ADA's impact will be felt particularly in the part of the process that includes job analysis and applicant evaluation methodology. Employers must be able to show that only essential, clearly job-related factors were used to evaluate applicants for a position; these factors should be identified through job analysis and then used to develop evaluation methodology and interview questions. As has been the case since the passage of the Civil Rights Act, the state also has the responsibility to provide for equal employment opportunity without regard to age, race, creed or religion, color, sex, national origin, ancestry or political affiliation. In these areas, the ability to prove that only job-related factors were considered in a hiring decision would also protect the state from possible liability and provide assurance of the fairness of the recruitment process.

A typical recruitment begins with a human resource office being notified by an operating agency of a vacancy. A human resource analyst meets with the agency subject-matter expert (usually a supervisor over the open position), and reviews the job description or class specification to make sure it is current. If job analysis is done, it may be done at this stage. Job analysis involves working with the subject-matter expert to identify essential knowledge, skills, and abilities needed to perform the job; these are ranked in importance and should then be used to develop the evaluation instrument, which is typically a rating of training and experience, or T&E. DHRM has developed forms for documenting both the job analysis and T&E. How widely to recruit, how much to advertise, and where to set the pay range (at entry or up to midpoint), will usually be determined at the initial meeting. A public recruitment period is usually ten days, while an opening advertised internally for state employees only is open for at least five days. Applications are accepted during this time.

Once the recruitment period closes, applications are reviewed and scored using the evaluation instrument. A T&E may be developed that scores applicants based on their training (education) and work experience either by numeric score on a scale of 70-100, or by broad banding, which groups applicants into best-qualified, well-qualified, or qualified bands instead of numeric score ranking. Once applications are scored, a register, or ranked list of applicants, is developed. Currently, the state awards an additional five or ten points to veterans or disabled veterans, respectively. A certification is then developed from the register of all qualified applicants. The certification is a smaller list which applies a hiring rule to indicate the top group of applicants from which a hiring selection must be made. Utah usually applies the Rule of Five; this means that the hiring authority must choose from among the five top-ranked available applicants. If there are any ties with the fifth score, these applicants are also included within the hiring rule. Extra names are usually included on the certification below the top five in case of non-availability of someone in the higher group.

After interviews have been conducted and a hiring decision is made, the interviewer indicates the result of the interviews or attempted contact for each applicant in the hiring rule, then signs and returns the certification to the human resource office. Letters should be sent to those to be interviewed, those who were interviewed, to the individual hired, and to those not hired. Once the chosen candidate accepts the job, a separate process of entering

the individual into the state's human resource and payroll data base begins. As previously indicated, this process is handled for the large independent agencies by their own human resource offices, while DHRM conducts these steps for the small agencies that do not have their own human resource offices.

Some variation in the above outlined process occurs because of the nature of a given recruitment or because a given agency has somewhat different procedures. As we will discuss, some important steps in this process are not always completed by the agencies we reviewed.

Job Analysis Is Not Always Done

In a sample of 1991 recruitments at DHRM, the Department of Natural Resources (DNR), the Department of Health (DOH), the Department of Environmental Quality (DEQ), and the Department of Human Services (DHS), we found that job analysis is not always done as part of a recruitment. According to DHRM employment staff and our human resource consultant, conducting a job analysis is a crucial step in the recruitment process, providing necessary information on the essential job functions to be used in screening applicants. In addition, as a result of passage of the ADA, recruitment and selection actions must be based on clearly job-related factors; essential job functions must be identified as such to be included in selection criteria. Conducting a job analysis identifies the essential job-related functions of a position and helps to protect the state against charges of discriminatory hiring. We found job analyses in recruitment files at Health and DEQ. DHS did job analysis only when first developing a written exam, while DNR staff indicated they did job analysis but we did not find evidence of this in the files. At DHRM, our sampling of 1991 recruitments they conducted for the small agencies found no job analyses in the files, but we were told that analysts were required to conduct job analysis as of the end of 1991.

When we discussed our concerns about the inconsistent use of job analysis in their agency and operating agencies with DHRM staff, they reiterated the importance of good job analysis as part of the recruitment process and indicated that this step in the process had gained even more importance with the passage of the ADA. DHRM has recently put together a training session on job analysis and applicant evaluation methodology for state human resource staff. The training will be offered in September and October 1992 and reflects an effort "to improve the quality of the state's selection system through training in basic selection principles and standard operating procedures, to meet ADA requirements, and to promote consistency in the selection process across agency lines."

Applicant Evaluation Methodology Was Not Always Evident

Although DHRM employment staff told us that the evaluation methodology used to rate and rank applicants should be clearly and completely spelled out and readily available for

review, we did not always find this to be the case. Our consultant also stressed the importance of the existence of complete and job-related evaluation methodology.

In most cases in the state, applicants are evaluated by means of the rating of training and experience, or T&E. Written examinations resulting in numeric scores are used for a few positions, such as the large job classes in DHS (e.g., treatment worker, family support worker). The ability to review a given recruitment and retrace how applicants were evaluated is important in order to show that only job-related factors were tested and that all applicants were tested fairly and equitably.

Our limited review of recruitment files for test methodology at DHRM and the sampled agencies had widely varying results. DNR recruitment files had clear and complete T&E criteria listed and candidate applications were marked so that one could follow how each applicant was rated. Health's files usually listed the evaluation criteria by broad bands (best-qualified, well-qualified, qualified) instead of numeric scores, but there were no rating sheets on applicants to see how they were individually scored or rated. DEQ also uses mostly banding; however, in some cases, the rating criteria were not found in the files and it was not possible to trace how an applicant was rated without the rating criteria. At DHS, we found only one application in our sample with notes on it to show how the applicant's training and experience were evaluated. DHS staff indicated they used to use scoring sheets and would be reinstating them. At DHRM, some T&Es were incomplete, and some files did not contain a T&E.

Preview of Interview Questions Would Protect the State

Once candidates for a position have been screened for meeting minimum qualifications and have been ranked according to the evaluation methodology, the hiring authority in the agency interviews the top ranked applicants. We found that in some agencies, interview questions and hoped-for answers are submitted to the human resource office prior to the interviews; the purpose of this is for human resource staff to screen the questions to ensure job-relatedness and eliminate questions that might incur liability for the state. In two of the agencies we visited, a fair employment committee also previews the questions. Pre-approving interview questions makes sense to us, especially in light of recent federal legislation updating the Civil Rights Act and enacting the ADA. However, the central human resource management agency, DHRM, does not preview interview questions, and the largest operating agency (DHS) only previews questions upon request. We believe this practice should be a standard component of the recruitment and selection process to help educate those conducting interviews and to protect the state.

Salary Offers Should Be Coordinated with Human Resources

Agencies are encouraged by state human resource rules to offer the entry salary in a range, and, according to human resource management rule R468-7-3.(2), "no salary offer to a new hire shall be made if it exceeds the salary rate of any current incumbent, equally qualified, in the same job classification and salary range of the new hire and in the same division of the agency. Exceptions will require written justification from the department head and approval from DHRM." One way some human resource offices in operating agencies deal with this rule is to screen salary offers before the agency makes an offer to a candidate. The salary is compared to incumbents' salaries to ensure that a new hire does not come in with a higher salary than experienced workers, unless justification is provided. Not all sampled agencies perform this step; some rely on the hiring authority to ensure that an inequity is not created.

To illustrate how the process can work proactively to prevent inequities, one agency found that when it initiated the practice of approving salary offers, there were numerous occasions where intended salary offers had to be revised so that a new hire was not brought in above an incumbent in the same job classification. To help the hiring authorities, the human resource office began to research incumbent salaries and provide a workable salary range to the hiring authority prior to interviews, so they would know within what range they could work to attract a new employee. This approach has worked well for them and nearly eliminated inappropriate offers being submitted for approval.

Although the review and approval of an intended salary offer by human resource offices will not always prevent inequities, the attempt to provide a central review in an agency (or at DHRM for the small agencies it serves) should minimize the occurrence of problems. We believe that such a review process should be in place in each agency's human resource office. Since agency hiring authorities can hire above an incumbent with justification, this review process should not prevent well-qualified people from being hired, but instead should ensure that the justification is valid and the fairness of the state system is preserved.

Better Documentation of the Recruitment Process Is Needed

Documentation of important steps in the recruitment and selection process is necessary to prove that the process was open and fair and to allow for DHRM review as part of a quality assurance process. We found varying levels of documentation in recruitment files in various agencies, with some having very little more in them than applications for the unsuccessful applicants. In contrast, some agencies kept sufficient documentation of the various steps in the process that we had no difficulty following the entire procedure. At the least, documentation should be provided for the parts of the process discussed above that have implications for fairness and openness. Adequate documentation of the job analysis and T&E in particular are needed. According to the state selection manager at DHRM, the lack of a complete and documented T&E could present problems if the state were ever to become involved in a legal action over a supposedly discriminatory hiring.

In addition to the areas discussed in the preceding section, other areas of inconsistency exist. DHRM and the operating agencies' human resource offices should consider consistent

documentation of most parts of the recruitment and selection process. The areas to be discussed below primarily involve differences in documentation of followed steps. We found very few problems when reviewing the files for hiring rules violations in these areas.

Based on the relative ease or difficulty we encountered in reviewing recruitment and selection files, in our opinion the following items should be considered in developing a standard level of documentation in a recruitment file: a checklist of the important items in the file; a written request from the agency requesting that a position be filled; a copy of the job analysis; a T&E or other rating methodology and scoring sheets for each applicant; a copy of the register of applicants and a copy of the certification with interview results noted on it; applications from all candidates and copies of letters sent to them; the interview questions and hoped-for answers and the completed interview sheets on those invited for interviews; any scoring sheets used after interviews or supplemental testing; the proposed salary offer and approval of that offer; a copy of the offer letter to the successful candidate. Other items may be identified by DHRM and agency human resource staff as necessary or beneficial should be included, but the above items would provide evidence that important steps in a fair and open process were followed.

We reviewed copies of certifications to verify whether or not the hiring rule was followed; DHRM procedures call for the interviewer to indicate on the certification who was contacted, who was interviewed, who was hired and on what date. During our review of certifications, we noticed that some agencies provided formal written justification for hiring an applicant outside the hiring rule, while others provided minimal justification in the form of a short note on the certification. Some agencies obtain approval from DHRM for hiring outside the rule, while others do not. Human resource management rules do not require formal approval from DHRM, nor do the rules address how to handle a situation where an agency wants to hire outside the rule. Because the certification often functions as one of the only pieces of documentation of the actual hiring decision process, we believe consistent documentation of exceptions or unusual circumstances would best protect the state and provide evidence of the fairness and openness of the process.

Class specifications, which are descriptions of job classifications, are available at DHRM for all job classes statewide and at operating agencies' human resource offices for those classes found in the agency. In recruitment, it becomes important to have access to up-to-date class specifications in order to ensure use of current job duties and minimum qualifications. During our work at DHS, it became apparent that the class specifications on file at that agency were often out of date. Some were as old as 1980 and written in an out of date format. Other agencies' class specification files were current, and a copy of the relevant class specification was found in the recruitment files. We believe that agencies should maintain current copies of relevant class specifications.

Finally, some helpful documentation found in some agencies' files that would better enable DHRM to follow the course of a recruitment as part of a quality assurance review included a checklist of documents to be included in the file, agency budget and/or space

approval for the hiring, and documentation of the hiring authority's qualifications as a subject matter expert on the position being filled. Minimum documentation found in all agencies' files included the applications for those not hired.

Recommendations:

1. We recommend that a formal job analysis be done and documented for all public and internal recruitments system-wide.
2. We recommend that the rating of training and experience (T&E), when used, be complete and documented. Further, evidence should be provided of how each applicant was rated against whatever evaluation instrument is used.
3. We recommend that interview questions and hoped-for answers be submitted in advance to the appropriate human resource office for preview.
4. We recommend that coordination of an intended salary offer with human resource offices be required to help prevent salary inequities with current employees.
5. We recommend better documentation of the steps in the recruitment process system-wide, with the required level of documentation to be determined by consensus of the various human resource professionals in the system.

Some Additional Changes Can Improve the Recruitment Process

Two changes to the current recruitment and selection system should be considered in an effort to further improve service delivery. DHRM and the Legislature should consider a broadening of the hiring rule of five to a rule of ten and the elimination of the requirement that DHRM certify registers. Changing the requirement that registers must be certified by DHRM will entail modifying the Utah Code.

Broadening the Hiring Rule Should Be Considered

Changing the hiring rule is recommended because of the lack of validity of the T&E, the state's most-used evaluation tool. The use of a hiring rule is based on the assumption that the evaluation tool in use by the state is able to predict success on the job and rank applicants according to their qualifications for the job. As previously mentioned, the ranked applicants are listed on a register and when the hiring rule is applied, the list is called a certification. The

hiring rule is applied to limit consideration to the highest scoring, hopefully best-qualified applicants on the register; as noted elsewhere, Utah uses the rule of five to limit consideration to the top five available applicants. Unfortunately, according to DHRM, agency human resource staff, our consultant, and the literature in the field, the rating of training and experience, or T&E, is the least valid predictor of success used in selection today. This is because it seeks to predict success in a job based on the quantity of education and/or experience without assessing the quality of the two in relation to skills needed to successfully perform a job.

In order to assess how well the T&E works for state hiring authorities, we talked with some agency supervisors who have hired employees. Requests for approval to hire someone outside the rule often result from finding a better qualified candidate lower on the certification than the group rated as most qualified by the T&E. Because some supervisors have felt that the top ranked applicants did not meet all the requirements they had in mind, they continued to interview lower on the list and found a qualified candidate whose score was lower than the top five. Our review of some of these cases found letters of justification from agency hiring authorities indicating that interview or test results showed that "top" candidates did not possess one or another of the essential skills or the knowledge to perform the job, while a candidate not included in the hiring rule had those skills. Broadening the hiring rule would give agency hiring authorities more flexibility to choose among a qualified group of candidates while allowing for the imprecise predictive nature of the T&E.

A 1977 audit by this office recommended that the hiring rule in place at that time, the Rule of Three, be replaced with pass-fail certification. The reasoning for this recommendation was that the T&E, also used then for the majority of ratings of applicants in the state, was unreliable. Reliability of a test such as the T&E means that two different human resource analysts rating someone would give the applicant the same score or that the same person being screened at two different times with the same T&E would receive the same score. In addition, they found that very frequently individuals cut off from consideration by the hiring rule had scores within a point of those within the rule. The imprecision of the T&E makes this too fine a distinction to make.

When we discussed the possibility of going to a pass-fail certification with DHRM management, they expressed concern about broadening the hiring rule that far, but indicated they have given some consideration to going to a hiring rule of ten. Our consultant suggested providing a trial period for a broader hiring rule, with data collection to determine how often a person below the top five is hired. This data would indicate whether agency hiring authorities would benefit from the additional flexibility provided by a rule of ten.

Because of the low predictive ability of the T&E, we assessed other means of evaluating applicants. We found that other states use written tests much more than Utah does; while most surrounding states use the T&E or a similar instrument at least part of the time, more written tests are used in these states than in Utah. One exception is our Department of Human Services, which has developed written tests to rate and rank applicants for most of its large job classes. Staff there feel the tests are a much better predictor of success in the job than a T&E,

and prefer to use the T&E only as a means of assessing whether applicants meet minimum qualifications. This raises the question of whether more written exams should be developed in Utah; DHRM staff indicate that this would be a costly effort. However, with a senior member of the DHRM staff possessing test development background, and with the availability of a bank of test questions at DHRM, it would seem that even a limited effort could be made to develop tests for commonly recruited job classes in the state.

Certification Process Should Be Changed

Current human resource management rules (R468-5-9.97) provide that "selection of public applicants shall be made from among those applicants certified by the executive director, DHRM, as being most qualified and in accordance with the designated hiring rule on the certification document." This implies that DHRM should have some access to the means used to determine which applicants are qualified for the position in question, such as applications, transcripts, resumes, etc. However, DHRM does not see any supporting documentation on applicants when preparing a certification for the agencies that have their own human resource offices. A register of the names of candidates rated and ranked by the agency is sent to DHRM to be certified. Certifications are processed by DHRM technicians who apply the hiring rule and send the certification back to the agency; agencies retain all supporting documentation such as applications, transcripts, and resumes. Thus, DHRM is not meeting the intent of the rules which gives the department a control function in ensuring that applicants are indeed the most qualified, but is merely processing paperwork. The current process of sending a register to DHRM for certification simply adds to the time it takes to complete a recruitment without providing any central control over the quality of applicants.

To assess the risk of DHRM not reviewing the qualifications of applications on a register, we examined a sample of certifications for each operating agency we reviewed to see if there were any applicants who did not at least meet minimum qualifications for the position as listed on the class specification. Applicants met minimum qualifications for the positions in all cases. Thus, without DHRM oversight agencies are currently ensuring that applicants meet minimum qualifications before being placed on a register. Determining that applicants are the *most* qualified is a function of reviewing the scores given each applicant; as we have discussed, most applicants are rated by a T&E which has limited predictive validity. However, assuming some validity, applicants are already ranked on a register in descending score order and the hiring rule functions as a cutoff that limits interviewers to considering the top available scorers.

Changing the procedure for certification will require that agencies' human resource offices apply the hiring rule to a register before sending the certified register to the supervisor doing the hiring. Agencies will need to keep records of their certifications for DHRM to review as part of the quality assurance review requirement of the reinstated contracts. Agencies without their own human resource offices will continue to have DHRM certify registers for them.

Further, changes to the relevant Code provisions dealing with certifying registers will be needed to allow agencies to perform the certification function instead of DHRM.

Recommendations

1. We recommend that the hiring rule of five be broadened to a hiring rule of ten for a trial period, with data collection to assess whether hiring authorities need the flexibility and availability of additional candidates.
2. We recommend that the **Utah Code** and human resource management rules be changed to allow agencies with human resource offices to have those offices certify registers and apply the hiring rule without having to send registers to DHRM.

Chapter IV

Compensation and Classification Can Be Improved

The state's compensation system can be improved by focusing more on the market-driven basis of state compensation as required in legislative intent. This shift in focus for DHRM would require that better benefit data be collected, that more emphasis be put on setting salary ranges according to salary survey data instead of classification results, and that salary adjustments based on market data be clearly identified as such.

Within the current compensation framework, we found that state human resource managers are concerned about the adequate funding of the compensation system and what can happen when sufficient funding is not available. Specifically, agency managers and supervisors seek alternate ways to reward employees when merit increases are not funded adequately, resulting in pressure on the system to grant various types of salary adjustments which are often inconsistent across the system. This raises the possibility of disparate treatment of employees. Inequities can be reduced by ensuring that salary adjustments are consistent and by avoiding basing classification increases on non-classification factors.

In addition, the classification system can be improved by loosening the current three year statutory requirement for a comprehensive review of all classifications in the state, allowing state classification staff to focus more proactively on reviewing rapidly changing classifications as needed. Avoiding the use of agency-generated classification criteria and ensuring that only classification-based appeals are heard in the appeals process would also improve the system.

Compensation Includes Several Methods to Increase Pay

The state compensation system or pay plan consists of the total of salary and benefits paid to employees as set up in a plan that provides for different pay rates for jobs of increasing value to the state. According to the Utah Code 67-19-12(4)(a) and (b), the director of DHRM shall develop and adopt pay plans for all positions in the classified service. The director shall design the pay plans to achieve, to the degree that funds will permit, equal pay for equal work, and comparability of state salaries ranges to salary ranges used by private enterprise and other public employment for similar work. Further, under 67-19-12(4)(c)(v), recommended adjustments to the pay plan shall include the effect of a salary survey of comparable positions in the private and public sector in the state. Thus, the state's pay plan or compensation system must be based on and comparable to salary ranges found in the statewide area, called the local market. DHRM interprets this to mean that the midpoint of a given salary range should approximate the local market salary range for that job.

There are numerous ways that employees can receive pay adjustments. These are merit (including probationary) increases, longevity increases, cost of living adjustments (COLA), promotions, classification adjustments, market adjustments, and special adjustments.

A merit increase is based on employee performance. Funding for a merit increase must be approved by the Legislature. Longevity increases are given to veteran employees who have reached the top of their pay range. Typically, employees can receive an adjustment of 3.5 percent every five years. A COLA is given by the Legislature as an across-the-board increase in the pay plan to adjust for inflation. Promotions occur when employees are given more difficult duties and responsibilities, and therefore higher pay. Classification adjustments occur when a classification study conducted by DHRM finds that the duties and responsibilities of a position have significantly changed. Positions may be raised or dropped in grade or remain unchanged. Market adjustments increase the pay of positions to bring them closer to market pay rates. These result when market survey data shows a position is significantly below market; adjustments can be made to a higher pay range or within the current range. Finally, a special adjustment is any increase not falling into one of the above six categories. Most special adjustments are equity adjustments, designed to prevent or correct pay inequities between employees. This chapter will focus on merit increases, classification adjustments, and briefly on market adjustments. We feel these areas have had the greatest effect on the pay system.

Focusing More on Market Would Improve Compensation System

Since the Utah Code indicates that the state pay plan should be essentially a market-driven plan, DHRM should put more emphasis on setting pay ranges according to market salary data and spend somewhat less time in completing a comprehensive schedule of classification studies. This shift in focus for DHRM's compensation and classification staff would require that better benefit data be collected and that more emphasis be put on setting salary ranges according to salary survey data instead of classification results. In addition, salary adjustments based on market data should be clearly identified as such instead of being called classification or special adjustments.

More Emphasis Should Be Put on Compensation Studies

DHRM should consider focusing more resources on compensation or market studies. Pay ranges can be determined either by market or by a classification study, which assesses and ranks positions based on their duties and responsibilities. (Classification studies will be discussed in more detail later in this chapter.) Since state compensation is supposed to be based on the local or Utah market, it makes sense to set pay ranges using the results of compensation survey data. We found that in some cases compensation survey results supersede classification study results anyway, so that staff time now spent classifying positions

to determine their value to the state could be better spent in other classification activities. For example, during 1991 wildlife biologists and conservation officers were reviewed during a classification study of the Division of Wildlife Resources (DWR). The classification study found that both of these positions should remain the same grade. However, market data showed that these positions should be moved up in salary range. As a result, wildlife biologists were upgraded two grades and conservation officers one grade. In addition, this year the Legislature appropriated funds for selective salary range adjustments for the following class titles based on market studies: legal counsel, enforcement counsel, administrative law judges, chemist, microbiologist, forensic toxicologist, and wildlife program coordinators.

When we discussed a possible change in emphasis with the state classification manager, he agreed that such a shift would be an improvement. He told us also that there has been some discussion in DHRM about this. In fact, DHRM has already begun to increase emphasis on compensation matters. During the annual salary survey, greater emphasis has been placed on the collection of benefit data. The importance of this will be discussed below. The state classification manager does feel that classification work needs to continue to ensure that employees are working within the proper classification and to identify any changes in duties and responsibilities. We agree with the state classification manager that while greater emphasis should be put on compensation, classification work needs to continue.

Quality Of Benefit Data Can Be Improved

One area where greater emphasis on compensation can be placed is the collection of benefit data. Each year DHRM has collected market data from the local Utah market to help ensure that the state is at or near market. The Legislature has determined through the Utah Code 67-19-12(5) that market comparisons between the state and other employers should be based on total compensation, or a combination of salaries and benefits. While the quality of the salary data appears to be good, we have been told that the quality of the benefit data collected is poor.

Over the past three years DHRM has contracted with the Department of Employment Security (DES) to conduct an annual salary survey. Typically, 300 to 400 employers throughout the state are surveyed. This includes employers of varying sizes and industries. While confident of the salary data collected, DES personnel have told us that in their opinion benefit data is inaccurate and not comparable with state data. They believe benefit data is inaccurate because most employers lack the sophistication to accurately determine their benefit costs, and further, they believe that most employers are under reporting benefits costs. As a result, even though market data shows state positions at market, the state in fact is below market, because survey benefit data is under reported.

DES officials believe that benefit data can be improved. They suggested that rather than collecting benefit data from 300-400 employers, the benefit survey should concentrate on a smaller group of employers with the sophistication to more accurately determine benefits costs.

We discussed the annual survey with the DHRM benefits manager. He agreed with DES officials that benefit data is not comparable. He also agreed that this problem could be solved by concentrating on gathering better data from a smaller group of employers.

As a result, DHRM has taken action to improve the quality of benefit data in this year's survey. In addition to surveying about 400 employers for salary data, about 126 of these will also be surveyed more in depth for benefit data. Several of the analysts in DHRM will collect this data. While it is too early to determine the quality of the data, we believe this is a step in the right direction.

Market Adjustments Need To Be More Clearly Identified

To provide better data on adjustments made to the state pay plan as a result of market compensation information, so-called market adjustments need to be clearly identified and tracked. This would result in more accurate reporting of costs for planning and review purposes and would enable DHRM and the Legislature to better understand and follow market based changes in the state pay plan. Until now, market adjustments have not been clearly identified and separate from other types of adjustments because there has been no pay or status code for market adjustments on the state's computerized payroll system. Market adjustments occur when it is found that the pay of specific positions is below market. Because no pay code exists on the state system for these adjustments, agencies have coded market adjustments differently. For example, when engineers were upgraded in late 1990, Health and DNR coded pay increases as a classification adjustment. The Department of Transportation (UDOT) provided the increases in two phases, one called a classification adjustment and the second a special adjustment. This has also occurred with other market studies. When nurses were upgraded in late 1990, increases given in DHS were identified as a special adjustment, while increases in Health were identified as a classification adjustment.

In addition, some of DHRM's data reports are generated using pay codes, which can result in inaccurate reporting if market adjustments are not properly identified. For example, there is a classification cost report prepared using the reclassification pay code. Since market adjustments have been identified often either as classification adjustments or special adjustments, cost reports are not accurate because they do not accurately distinguish between classification, market, and special adjustments. To provide more accurate data, a separate code should be established for market adjustments. DHRM officials have told us that they are considering adding such a pay code as part of the revision of the state's computerized payroll/human resources system.

Other Improvements Can Be Made in the Compensation System

We found that state human resource managers are concerned about the adequate funding of the compensation system and what can happen when sufficient funding is not available. Specifically, when agency managers perceive that inadequate funding is available for merit increases, they seek alternate ways to reward employees, resulting in pressure on the system to grant salary adjustments which are often inconsistent across the system. For example, pressure has been put on human resource management staff to grant salary increases in the guise of classification adjustments; we found classification adjustments that were based on non-classification factors such as performance or seniority. These pressures raise the issue of disparate treatment of employees. By ensuring that salary adjustments are consistent and avoiding basing classification increases on non-classification factors, inequities can be reduced.

Limited Merit Funds Have Put Pressures on Other Types of Increases. During our visits to agencies, human resource managers have addressed their concern with adequate funding of the merit pay system. Due to budget constraints and other priorities, the merit system has not been consistently funded over the past several years. As a result, human resource staff have noticed an increase in agency supervisors and managers seeking other ways to reward their employees. Figure I below illustrates by fiscal year when merit increases have been approved and the percentage increase provided for.

As shown, merit increases were funded in five years out of the last ten. Both DHRM staff and agency human resource staff told us they believe that for the merit system to work, it must be funded consistently. It appears to us that the perception is common in state government that merit funding is often inadequate. Although the Legislature may not always have the option of providing funding for merit increases, it is important to recognize what can happen in operating agencies in years when merit funding is not possible. Agency managers turn to other means, such as classification adjustments, to reward their employees when they believe merit funding is inadequate.

Classification Adjustments Should Be Consistent. As a result of reviewing classification adjustments given during fiscal years 1991 and 1992, we found that employees were often given different amounts depending on agency guidelines, the discretion of managers, and the wealth of the agency. Human resource managers told us that this type of adjustment is often used to get some employees a pay increase when other avenues, such as merit increases, seem restricted. They, along with our consultant, indicate that these increases should be consistent when incumbents in the same job title are increased by the same number of grades. We agree that consistency in classification adjustments should occur and be required in rules.

Classification adjustments are given when a position is increased in grade or upgraded as a result of a classification study. Classification studies review positions to determine whether duties and responsibilities have changed. When a position is upgraded, the agency is required to give the employee a pay increase in recognition of the increased duties and responsibilities associated with the position. Rules governing classification adjustments have changed each year over the past three years. During fiscal year 1991, at their discretion agencies could give increases between 0 and 10 percent regardless of the number of grades a position changed. During fiscal year 1992, agencies were required to give at least 2.75 percent for a one-grade upgrade, and at least 5.5 up to 11 percent for two grades or more. With the recent re-introduction of steps, adjustments must now be in increments of 2.75%. In addition, some agencies have established policies within the rules set by DHRM. Figure II below shows the classification adjustment policies in place during fiscal year 1992 for the agencies we reviewed during the audit.

Because of the flexibility allowed by rules, four of the five agencies differ. As a result, employees can receive very different amounts based on which agency they work in. For example, two employees, one in DHS and one in DNR, were working as PC Resource Specialists II when both were upgraded to LAN Administration Specialists II. Yet the employee in DHS received a 4 percent increase while the DNR employee received a 2.75 percent increase.

In some cases, employees are treated differently within one department. For example, the Health Department allows each division or office to establish its own classification adjustment policy. This has resulted in several different policies, so that employees working in the same class title and grade but in different divisions or offices can receive different increases. For example, as a result of a classification study, several grade 15 secretaries were upgraded to grade 17 executive secretaries, yet they received varying amounts based on which division or office they worked in. Those in the Division of Family Health Services (FHS) received a 6 percent increase, those in the Division of Community Health Services (CHS) received an 8 percent increase, and those in the Office of Administrative Services (OAS) received a 10 percent increase. Varying increases were also given in other cases. For example, when nurses were upgraded by one grade, those in FHS received an increase of 3 percent while nurses in CHS received 4 percent. Yet, according to the classification study, the duties and responsibilities of these positions increased equally.

In addition to agencies establishing different policies, factors have been used in determining adjustment amounts other than those supposed to be considered in classification decisions. We have been told by agency human resource staff and managers that increases have been based on performance, longevity, workload, inequities, and budget constraints. DHRM personnel, along with our consultant, agree that these are not valid reasons for determining classification adjustment amounts.

Since classification upgrades are supposed to be based on a change in duties and responsibilities of the position and not individual performance or other factors discussed above, classification adjustments should be consistent for each grade change. Several state agencies, including DNR and DHS, have established policies which require consistency. Human resource directors, DHRM officials, and our consultant have all told us that increases should be consistent. Requiring consistent classification increases would prevent agencies with more funding for personnel from providing larger increases to employees than other agencies could afford, and would thus eliminate a possible cause of disparate treatment of employees. For example, as a result of the engineer/scientist study in 1990, engineers were given different increases depending on the agency in which they worked.

Engineer/Scientist Study Is an Example of Inconsistency. As a result of market surveys, in December 1990 all engineers and most scientists statewide were upgraded two to three grades. We believe the process and implementation of this study could have been handled better. Correct procedures were not always followed and inconsistent increases were given to engineers in different agencies. Better planning by DHRM should have included an assessment of the need for action based on the recruitment and retention problem with engineers and scientists and a timely response to the problem before it reached what the Department of Health considered to be a crisis level.

During 1989 and 1990, Health's Division of Environmental Health (DEH), now the Department of Environmental Quality (DEQ), was having problems recruiting and retaining engineers and scientists. The human resource director in Health approached DHRM about doing a classification study. DHRM was unable to do a study at that time because of other

commitments and priorities. At about the same time DNR was also beginning to lose engineers. Health continued to press DHRM to address the problem. After several months, DHRM agreed to let Health conduct a compensation survey to collect market data, which DHRM would analyze. The data was collected during August 1990 and showed that their scientists were being paid below market. Other data collected by DHRM showed that engineers were also below market. As a result, all engineers and most scientists statewide were upgraded two to three grades.

This process could have been handled better. First, DHRM was aware from survey data that engineers were below market at least as early as July 1989, yet no action was taken. DHRM officials told us they wanted to wait and conduct a classification study, but other priorities kept them from it.

Second, proper procedures were not always followed. Utah Code 67-19-12(4) gives DHRM responsibility to develop and adopt state pay plans. Utah Code 67-19-8(1) indicates that this responsibility cannot be delegated. Yet DHRM allowed Health to perform a market survey. In the opinion of our consultant, this action was a de facto delegation and violation of the Code. In addition, DHRM agreed to conduct a classification study of scientist positions in DNR during 1991. It was agreed that the results of this study could be made retroactive to December 1990. It has been DHRM's practice not to allow classification study results to be made retroactive.

Third, implementation could have been better handled. The engineer/scientist study was implemented in December 1990. However, due to funding problems each agency provided adjustments to employees at different times and in different amounts. DNR adjusted engineers and some scientists in December 1990, and provided increases varying between 7 and 10 percent. Health adjusted all engineers and scientists in February 1991, and provided increases of 10 percent. UDOT lacked the funding to provide pay adjustments for their engineers. After obtaining funding from the Legislature, UDOT was able to give engineers a 3.5 percent increase in June 1991. As a result, UDOT engineers filed a grievance claiming they had been treated unfairly because they received lower increases than those provided by Health and DNR. During the 1992 legislative session, UDOT obtained additional funding for its engineers. As discussed earlier in this chapter, we believe that such adjustments should be consistent, and believe that DHRM has a responsibility to ensure that this occurs.

To solve some of the problems that occurred during this study, beginning last year DHRM prepared for the Legislature a list of positions identified as being paid below market. As discussed above, the Legislature decided to provide funding to bring these positions to market. As a result, 216 positions were adjusted. We believe such adjustments to be a good practice, and the Legislature should continue to fund them.

Recommendations

1. We recommend that DHRM put more emphasis on compensation and market studies. This should include but not be limited to:
 - improving the quality of benefit data
 - establishing a pay status code for market adjustments on the state payroll system.
2. We recommend that DHRM change classification adjustment rules to require consistent increases for each grade change.

3. We recommend that DHRM no longer allow agencies to conduct market studies.

Classification Process Works Well, But Improvements Can Be Made

It appears that DHRM is properly conducting classification studies. We found that proper steps and procedures required in a classification study are done. However, there are three areas where changes could improve the system. First, we believe the Code requirement that all positions be studied every three years needs to be broadened to allow DHRM more flexibility in dealing with volatile positions. Second, a better review process of classification actions should be developed and implemented. Third, DHRM has allowed a division to use agency specific-criteria to upgrade a group of employees. We believe that this practice should cease, and all classification changes should be based only on state classification criteria. Finally, a recent change in the screening of appeals should help to reduce the time involved in hearing non-classification appeals.

Classification is the process used to rank positions based on the duties and responsibilities of each position. As defined in the state classification manual, classification is "a formal procedure for ordering positions in an organization on the basis of difficulty of duties, level of responsibility and job qualifications." The process includes the development of class specifications, which describe duties and responsibilities, needed knowledge, skills and abilities, and the required education and experience or minimum qualifications for the position. Specifications are usually designed to cover a number of similar positions across the state system, such as engineers in all applicable departments. Once classification has been completed, the pay range for each position is determined. Utah Code 67-19-12(3)(a) gives DHRM sole responsibility for determining the classification of state positions. It states that DHRM "shall prepare, maintain, and revise a position classification plan for each employee position."

To classify a position, analysts collect information about the position and where it fits into the organization. A position description questionnaire (PDQ) which describes the duties and responsibilities of a position is prepared for all positions being studied. Agency management and supervisors are interviewed. Factfinding interviews or desk audits are conducted on a sample of positions. The purpose of factfinding interviews, discussions with management, PDQs, and other information is for the analyst to better understand the position and be able to point rate the position. Point rating involves assigning specific points to each position based on ten different work factors; among these factors are knowledge required, supervision exercised, how closely the position is supervised, and complexity of tasks. Each factor has varying levels with corresponding points. The points assigned from all ten levels are totalled into a point rating. After a position has been point rated, it is matched with the proper benchmark position and pay grade corresponding to its value in reference to the

benchmark. Benchmarks are common positions with a well understood usage and meaning in the public and private sector. For example, chemists, wildlife biologists, and microbiologists are tied to the chemist benchmark.

We believe that DHRM analysts are doing a good job of following the above process. We reviewed several studies that had been conducted over the past two years and observed a current study in process. We found that all of the essential steps including point ratings and factfinding interviews had been done. We also talked with managers and human resource directors of agencies studied in the past two years. For the most part, they were pleased with the work done by DHRM. While it appears that DHRM is doing a good job classifying positions, we found several areas where improvements can be made.

Three Year Requirement Should Be Broadened

Utah Code 67-19-12(3)(d) requires that DHRM "conduct periodic studies and desk audits at least once every three years to provide that the classification plan remains reasonably current and reflects the duties and responsibilities assigned to and performed by employees." DHRM has been unable to meet this requirement. However, we believe this requirement is too restrictive and should be broadened, which would give DHRM more time to conduct studies in areas which change often.

Because record keeping is not accurate, we have been unable to determine the exact number of positions which have not been reviewed in the past three years. However, it appears that approximately ten percent of state positions have not been studied in this time. The state classification manager agreed that they had been unable to meet the requirement and attributed this to staff size, the number of classification appeals filed, and the time involved to complete some large functional studies (clerical, fiscal, and data processing positions). In our opinion, DHRM has tried to meet the requirement, but has been unable to because the time needed to complete reviews has been longer than anticipated.

In discussions with other western states, we found that only one state requires that positions be reviewed more often than Utah. That state requires positions be reviewed every two years. Officials in that state told us that they are unable to meet this requirement and usually take three to four years to complete their review cycle. Of the other eight states we contacted, four have no time requirement and the remaining four allow up to five or six years.

Increasing the number of years required to review all positions would give DHRM the flexibility to review positions which need to be reviewed more often. Some positions, such as those in the environmental and data processing areas, have changed significantly over the past few years. Because of this, these positions and others may need to be reviewed more often than every three years, while other positions may not need to be reviewed as often if they have remained relatively unchanged. The state classification manager agreed that many positions do

not need to be reviewed every three years because duties and responsibilities don't generally change significantly over time.

Better Review Process Is Needed

Once more flexibility is achieved in the time allotted for classification studies, DHRM can provide more quality control by reviewing classification actions to identify rule violations that occur. At present, the state classification manager does not review relevant reports for problems. In addition, improvement is needed in the accuracy of some report data in order for a review to be meaningful.

In reviewing classification action reports at DHRM, we found several rules violations. During fiscal year 1992, rules required that for a two grade increase employees should receive at least a 5.5 percent increase. However, we found examples where employees received less than this amount. For example, one employee received a 2.5 percent increase while another employee received 4.8 percent. The agency human resource director indicated they simply overlooked these.

Employees have also received larger adjustments than allowed by rule. We found two employees who received increases of over 35 percent, when rules would have allowed a maximum of about 23 percent. In one example, this increase caused an inequity with another employee. When this was brought to DHRM's attention, they required that the employee's salary be reduced. In the other example, agency officials told us they just missed it. We believe that many of these violations could have been prevented or promptly corrected if classification adjustments were reviewed by DHRM.

In addition, some reports do not provide accurate information. For example, the classification cost report does not always identify the grade and class title held by the employee prior to a classification adjustment. As a result, comparisons between the old and new grade cannot be made to determine if adjustments were proper. Also, as discussed previously, market adjustments have often been coded as classification adjustments. Improvements in this report along with more review could identify rules violations and inconsistencies, allowing DHRM to provide more quality control over classification actions.

Established State Classification Criteria Should Always Be Used

In at least one situation, DHRM has allowed the use of agency-derived criteria to classify employees. This involved the upgrading of park managers in the Division of Parks and Recreation (DPR). Utah Code 67-19-12(3) and 67-19-8(2) and (3) give DHRM the sole responsibility for conducting classification studies, and state that this responsibility cannot be delegated. One reason for this is to ensure that the same criteria is used so that all employees are treated in a consistent, fair manner. DHRM should ensure that all classification studies

use only established state classification criteria as defined in the classification manual used by the department.

In late 1990, DPR upgraded the level of several parks and park managers. State parks are distributed into four levels, based on the size of the park, number of visitors, miles of road and trails, and other similar criteria. Park manager positions are also divided into four levels. It has been DPR's practice that the park manager be the same level as the park. For example, if the park is level II, then the manager would be a park manager II. Sixteen park manager positions were upgraded based on the category of their parks. However, state classification criteria were not used to review these positions.

The state classification manager indicates there was a relationship between the parks data and state classification criteria. In 1983, DHRM, DPR, and the DNR human resource director at that time established rating criteria for parks managers that were tied to classification factors. Since then, park managers have been classified according to those criteria without conducting full classification studies. The DHRM classification analyst assigned to DNR and the current DNR human resource director both expressed concerns about the use of criteria that differed from standard state classification criteria in the 1990 study. The DHRM classification analyst was concerned that state classification criteria used for all other positions in the state were not used; no factfinding interviews or point ratings were done. The current DNR human resource director also expressed concern, questioning whether proper classification procedures had been used. We believe that to ensure consistency and to fulfill DHRM's role as sole classifier in the state, only standard classification criteria and methods should be used in studies. In fact, at present DHRM is conducting a classification study of the Division of Parks and Recreation that includes the park manager positions and involves the standard process of factfinding interviews and point ratings.

Recent Changes Should Mean Appeals Will Be Better Screened

Because of a rapid increase in the number of classification appeals, we believe that recent steps taken to control the appeal workload are appropriate and to be commended. According to DHRM staff, over the past four years the number of appeals has increased by over 1700 percent, due in part to employee dissatisfaction with merit increases. This has significantly increased the time spent with appeals, and consequently reduced the amount of time that has been available to be spent on classification studies. Recently, DHRM began to address this problem by developing a new classification appeal form which more clearly explains appropriate reasons for an appeal. In addition, the appeals panels and the Executive Job Evaluation Committee (EJEC) have begun to deny appeals that are not based on classification issues. Better screening of appeals should reduce workload and free up more time for classification studies.

Utah Code 67-19-31 provides for a process whereby employees may appeal classification decisions. Once an appeal is received, the DHRM director assigns it to a panel of three human

resource personnel. Panel members are drawn from DHRM and agency human resource staff. The panel may sustain or modify the original decision, or come to a new decision. Either party may appeal the panel's decision to EJEC, whose members are appointed by the DHRM director. Currently, EJEC is comprised of five department directors. EJEC can sustain or overturn the panel's decision. Within the state human resource system, their decision is final, though either party may appeal to district court.

Between fiscal year 1989 and fiscal year 1992, the number of appeals filed has risen from 29 to 497, an increase of 1714 percent. DHRM attributes this rise in part to employee dissatisfaction with the merit system. As discussed earlier, without consistent merit increases each year, employees have looked to other areas, including classification, to obtain pay increases. If during a classification study, DHRM does not upgrade a position, the employee appeals the decision in hopes of achieving an upgrade. Of the 497 appeals filed, a decision was rendered on 196, with 16 (8 percent) upgraded, 1 (1 percent) downgraded, 96 (49 percent) unchanged, and 83 (42 percent) denied a hearing due to non-classification basis. The rest of the filed appeals were re-audited, withdrawn, or still under consideration.

The increase in appeals has consumed a lot of DHRM classification analysts' time which could have been spent conducting classification studies. The state classification manager believes that many of the appeals are based on compensation, rather than classification. However, compensation is not appealable, so many appeals are presented in classification terms. During our audit, DHRM revised its classification appeals form to help screen out non-classification based appeals. In addition, the panel and EJEC have been begun rejecting appeals which do not appear to be classification based. As a result, 83 of 497 or 16.7 percent of the appeals filed during fiscal year 1992 have been denied a hearing. We believe that these steps will help to reduce the number of appeals.

Recommendations

1. We recommend that the Legislature amend Utah Code 67-19-12-(3)(d) to require that periodic studies and desk audits be conducted every five years.
2. We recommend that DHRM develop and routinely review reports showing costs and other changes resulting from classification and market adjustments.
3. We recommend that DHRM not allow any classification study to be conducted using criteria other than state classification criteria. We further recommend that DHRM not accept the results of any classification study which has not been conducted by or under the direction of the state classification manager.

Agency Response

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