

PERFORMANCE AUDIT
Oversight of Discretionary Pay Changes
for State Employees
Department of Administration

JANUARY 2017

15P-05

REPORT SUMMARY

In fiscal year 2015, state employees received over \$9.5 million in additional compensation through discretionary pay changes. In Montana state government, these types of changes are administered by individual agencies with no oversight provided by the Department of Administration. Our work identified issues with the consistent application and support of discretionary pay changes to state employees, which could be remedied by a more proactive oversight role for DOA. Our work also identified issues related to statutory clarity for discretionary pay adjustments under the broadband pay plan.

Context

Within the broadband pay plan used by the majority of agencies of state government in Montana, each agency has its own pay plan that includes criteria for properly administering and supporting discretionary pay changes. Discretionary pay changes are those that are not directed by the legislature, and are at the discretion of the agency. Audit work included reviewing a sample of pay changes across ten agencies to determine if these pay changes were being properly and consistently supported by the agencies according to their pay plans and state policy. These agencies included the Arts Council, Department of Fish, Wildlife, and Parks, Department of Labor and Industry, Office of Public Instruction, Department of Public Health and Human Services, Department of Revenue, State Auditor's Office, Secretary of State, State Library, and Department of Transportation.

In fiscal year 2015 over \$9.5 million in discretionary pay changes were granted throughout the state, as allowed under the broadband pay plan. Due to the decentralized nature of the broadband pay plan, there is no review process outside of the agencies for these pay changes, and audit work found they often did not meet the criteria established by the agencies, collective bargaining agreements, and state policy. State law requires the Department

of Administration (DOA) to encourage and exercise leadership in the development of effective personnel administration within the state agencies. This includes the pay change process under the broad band pay plan. We also identified a lack of clarity in current statute regarding the funding and analysis of pay adjustments under the broadband pay plan. There is no statutory requirement for analysis of the effects of the broadband pay plan, and a lack of clarity in how funding should be provided for pay adjustments.

Results

We reviewed a sample of 200 pay changes and found that 173 were not properly supported. An unsupported pay change was one that did not follow the proper criteria based on agency policy, state policy, and/or union collective bargaining agreements. These 173 unsupported pay changes amounted to over \$394,000 of the total of \$503,921 in pay adjustments from the sample for fiscal year 2015. There were over 3,500 total pay changes awarded in fiscal year 2015. Instances that led to unsupported pay changes included agency pay plans that were contrary to state policy. In other cases pay plans did not include criteria for the types of changes that were being used by the agency. Presently there is

no oversight of agency pay plans, pay changes, or entry of pay change information into the state accounting system on the part of DOA. Due to this decentralized process and limited oversight, audit work found that pay changes were frequently handled inconsistently between agencies.

This audit report makes four recommendations to improve DOA oversight of pay changes, and two recommendations to the legislature to enact legislation requiring ongoing examination, and clarification of the use of pay adjustments under the broadband pay plan. These recommendations relate to enhancing oversight and accountability for discretionary pay changes by:

- ◆ Taking a more active role in the pay change process including:
 - ◇ Clarifying state pay change policy, and
 - ◇ Providing training for pay changes.
- ◆ Establishing and implementing a biennial review process for agency pay plans based on state policy.
- ◆ Developing and implementing a pay change review process.
- ◆ Simplifying the pay change options available to agency staff.
- ◆ Enacting legislation to provide for an investigation of the effect of pay adjustments under the broadband pay plan.
- ◆ Clarifying state law on the use of pay adjustments under the broadband pay plan.

Recommendation Concurrence	
Concur	4
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

For a complete copy of the report (15P-05) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at <http://leg.mt.gov/audit>
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