Career Service Authority
Classification, Compensation and Benefits
Performance Audit

October 2011

Office of the Auditor
Audit Services Division
City and County of Denver

Dennis J. Gallagher
Auditor
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CSA Board, Career Service Authority  
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CSA Board:  

Attached is the Auditor’s Office Audit Services Division’s report of their audit of the Classification, Compensation and Benefits Division of the Career Service Authority. The purpose of the audit was to examine and review policies and procedures, information system controls, contracts, and key department performance measures to determine whether internal controls in place were adequate under the circumstances.

We are concerned about the CSA Board’s mismanagement related to pay philosophy and merit pay increases. The City and CSA would benefit from a centralized, written pay philosophy accompanied by merit increases which reflect that philosophy. Additionally, we are concerned about CSA’s classification audit process. As a result, the City may be spending monies on a function that brings no added value to City employees. Further, the City should research whether a small investment into the Wellness Program would reap significant savings and benefits for the City. From our research, an investment of only $100,000 in the City’s Wellness Program would possibly result in a return on investment of between $230,000 and $1,010,000.

If you have any questions, please call Kip Memmott, Director of Audit Services, at 720-913-5029.

Sincerely,

Dennis J. Gallagher  
Auditor

DJG/cw

cc:  Honorable Michael Hancock, Mayor  
     Honorable Members of City Council  
     Members of Audit Committee  
     Ms. Janice Sinden, Chief of Staff  
     Ms. Cary Kennedy, Chief Financial Officer  
     Mr. Doug Friednash, City Attorney  
     Mr. L. Michael Henry, Staff Director, Board of Ethics  
     Ms. Beth Machann, Controller
AUDITOR'S REPORT

We have completed an audit of the Career Service Authority's Classification, Compensation and Benefits Division for the period January 1, 2009 through May 1, 2011. The purpose of the audit was to examine and review policies and procedures, information system controls, contracts, and key department performance measures. Additionally, we attempted to identify possible inefficiencies and opportunities for improvement.

This performance audit is authorized pursuant to the City and County of Denver Charter, Article V, Part 2, Section 1, General Powers and Duties of Auditor, and was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The audit revealed three opportunities for improvement related to the Division. First, the CSA Board has an opportunity to better align the recently implemented pay matrix with the merit-based personnel system by creating a formal compensation philosophy. Many successful organizations have a formal philosophy, which, in the case of the City and County of Denver, could reverse some of the compensation issues revealed by audit work. Second, audit work found that organizations, both public and private, that invest in wellness programs see significant dollar savings and cost reductions. Industry research suggests that investment in wellness programs results in many positive effects for the organization and its employees. Potential exponential savings could be realized with a small investment into the City's wellness program. Third, CSA's management of the classification audit process is ineffective. The inefficient classification audit process may lead to arbitrary classification changes of City employee job titles.

We extend our appreciation to the Career Service Authority personnel who assisted and cooperated with us during the audit.

Audit Services Division

Kip Memmott, MA, CGAP, CICA
Director of Audit Services
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EXECUTIVE SUMMARY

Opportunities Exist for CSA to Strengthen Recently Implemented Pay Matrix Employee Compensation Program

The Career Service Authority (CSA) Board oversees one of the City’s most important resources: its personnel. Per the City’s Budget and Management Office, CSA personnel costs (salary and benefits) are approximately $573 million of the total City budget, equating to one of the City’s major cost centers. The CSA Board is also responsible for maintaining the City’s merit-based personnel system. Thus, it is imperative that the CSA Board be directly involved in merit compensation matters that affect CSA personnel. The CSA Board recently adopted a new pay matrix for City employees. The framework and basic tenets of this program are sound and with some enhancement, the program should result in an effective compensation structure for City employees going forward. As one critical enhancement, the Board has an opportunity to better align the pay matrix with the merit-based personnel system by creating a formal compensation philosophy. Many successful organizations have a formal philosophy, which, in the case of the City and County of Denver, could reverse some of the compensation issues revealed by audit work.

Specifically, the audit team concluded that the City’s new salary-increase tool is not in alignment with CSA’s merit-system orientation. Currently, an employee who is rated “Below Expectations” is eligible to receive the same pay increase as an employee who is rated “Exceeds Expectations.” As a result, the current merit pay matrix does not treat employees equitably throughout all quartiles, especially in the third and fourth quartiles. This may result in higher-quartile employees feeling undervalued and could decrease their motivation to exceed expectations in the future. Further, without a formal compensation philosophy, potential recruits and the general public do not have a source they can reference to understand the City’s compensation philosophy, potentially impacting transparency and accountability. As a result, the CSA Board should adopt a centrally located and formalized compensation philosophy policy based upon the City’s current merit-system compensation ideals.
Significant Savings and Cost Reductions Can Be Realized with a Modest Investment in the City’s Wellness Program

Audit work found that organizations, both in the public and private sectors, that invest in wellness programs experience significant dollar savings and cost reductions. Industry research suggests that investment in wellness programs results in many positive effects for the organization and its employees. The benefits include, but are not limited to: reduced health care costs, improved fitness, increased productivity, improved employee morale, decreased absenteeism, lower rates of disease and injuries, higher retention of employees, and lower levels of stress.

A review of the 2009 and 2010 budget revealed that CSA’s Wellness Program receives no dedicated funding to conduct its wellness initiatives. While the City budget allocates no monies to the Wellness Program, funding is occasionally available through insurance credits or insurance provider wellness incentives. It appears that the tough budgetary times in which the City currently finds itself, and City leaders not fully realizing the benefits of the Wellness Program result in a poorly funded program. However, the Wellness Program continues to offer City employees a wide range of activities despite these circumstances.

Audit work indicated that moving from an activity-based wellness program structure to a results-based program may produce a greater positive impact on the City’s workforce. A results-focused program allows specific individual needs to be identified and in turn establishes programs and activities to meet those needs. Moving to a results-based program would require additional funding, since the tracking of specific results and the creation of well-designed wellness programs takes both time and money. Available statistics indicate a return on investment ranging from $2.30 to $10.10 for every dollar spent on corporate health promotion programs. Accordingly, an investment of $100,000, for example, in the City’s Wellness Program could result in a return on investment of between $230,000 and $1,010,000.

The CSA Board should provide a strategic business plan to the Mayor and City Council, outlining the benefits of a well-supported and well-funded Wellness Program. This information should include potential dollar savings (ROI) for the City and other benefits, such as lower health care premium costs, decreased absenteeism, a healthier workforce, more productive employees, and a reduction in employee turnover.

2 Ibid.
CSA’s Management of the Classification Audit Process is Ineffective

CSA’s Classification Section conducts individual position audits when an employee’s duties for an existing position change to such an extent that another existing job classification aligns better with the employee’s current job duties. CSA determines whether to conduct a classification audit based on initial information submitted by the employee and his or her agency to CSA. Audit work found that initial information required by CSA is often incomplete and does not sufficiently support a sound analysis for a classification audit of a city employee’s position. Further, CSA is not enforcing its documentation requirements or performing a thorough internal quality control file review. CSA’s analysts are approving the classification of employees, even if they are lacking critical documents such as prior or current performance enhancement plans for the position, prior or current agency organizational charts, and the timeframe the candidate has been performing the new duties. Missing documentation makes it difficult for the analysts to reach a sound and definitive conclusion regarding reclassification. Ultimately, because CSA’s classification audit process is inefficient, the City may be spending monies on a function that brings no added value to City employees. CSA should conduct a cost-benefit analysis in order to determine if the classification audit function is necessary.

Moreover, as a related issue, auditors discovered that one of the classification analysts who perform classification audits has administrative access rights to the system used to track audit data. This lack of segregation of duties may provide classification analysts an opportunity to alter classification data, compromising the integrity of the information as CSA classification analysts are held accountable for timely completion of position audits as part of their performance evaluations. CSA should grant administrative database access only to personnel who are not directly involved in the classification audit process.

Classification Audit decisions were found to be based on incomplete and insufficient supporting information.
INTRODUCTION
& BACKGROUND

Overview of Denver’s Career Service Authority

The City and County of Denver is one of the largest employers in the Denver metropolitan area. About 68 percent of the City and County’s 13,000 employees are part of what is called the Career Service. Established under the City Charter in 1954, the Career Service Authority (CSA) provides human resources (HR) services for Career Service employees of the City and County of Denver.

Authorized positions within CSA include Recruiters, Training Specialists, Classification/Compensation Specialists, and Benefit Specialists. Some of the agency’s duties include:

- Recruiting, examining, and certifying applicants for employment and promotion
- Administering the personnel rules that govern appointments, promotions, demotions, transfers, and layoffs
- Providing Citywide training
- Setting compensation and classification details for City employees
- Administering employee benefits
- Managing employee grievances and other employee relations

Under the City Charter, CSA is an independent agency—that is, an agency removed from the Mayor’s direct control. CSA’s operations are overseen by a governing board, called the Career Service Authority Board (Board). The Board comprises five members who are appointed by the Mayor and confirmed by City Council for five-year staggered terms. The Board has numerous responsibilities.

- The Board oversees the Career Service Board Personnel Rules (Rules) that govern employment practices within the Career Service. These rules address hiring, pay, classification, transfers, dispute resolution, promotions, training, and other personnel matters. The Board may revise or rescind proposed rule changes at any time, provided the process is performed in accordance with the rule-making process specified in the Rules.
- The Board adopts, administers, and enforces rules necessary to foster and maintain the City’s merit-based personnel system.
- The Board oversees CSA, including appointing and supervising CSA’s Executive Director.

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• The Board oversees the Career Service Hearing Office and serves as a quasi-judicial body to decide appeals of decisions by the Career Service Hearings Officers.4

CSA’s overall mission is to uphold and administer a merit system. Among other things, a merit system allows job applicants to compete for and obtain employment based on their knowledge, skills, and abilities.5 Merit systems have been utilized by government for decades and were intended to combat the “spoils” system, under which government jobs were granted to people as a reward for supporting particular elected officials.

Overview of CSA’s Classification, Compensation and Benefits Division

The Classification, Compensation and Benefits Division employ 18 human resource professionals with a budget of approximately $1.8 million. The Division comprises four sections, each of which carries out different duties within the overall human resources function. Each section’s respective responsibilities are explained below. It is important to note that the City’s Wellness Program and Wellness Center are under the purview of the Classification, Compensation and Benefits Division Director. Therefore, the Auditor’s Office assessed aspects of the Wellness Program.

Classification Section

The Classification Section maintains the classification and pay plan for all City jobs, excluding employees in the Police, Fire, and Sheriff’s Departments. In addition, the Classification Section staff approves requisitions for new positions requested by City agencies, approves employee classification changes, conducts individual and class job audits, and performs classification studies. Below is a brief explanation of different functions performed by classification analysts:

- **Allocation** – The formal process of assigning a new position to its proper classification on the basis of the duties performed and the responsibilities to be exercised. A newly hired employee will receive the classification title of “Lab Technician,” for example, based on the person’s ability to perform and carry out duties related to a lab technician.

- **Reallocation of Existing Positions** – When the duties of an existing position have evolved to the extent that the position becomes more similar to positions in other classifications, the position should be reallocated to a more appropriate classification in accordance with Career Service Rule 7.

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5 The federal government has a detailed framework for achieving fair and open human resource policies and practices called the Merit System Principles and Prohibited Personnel Practices. The City and County of Denver is not required to abide by these practices.
• **Job Audits** – Fact-finding investigations of the work performed by an employee in a given position, including work processes, materials processed, actions taken, tools used, supervision exercised, and supervision received for the purpose of analyzing the kind and level of duties and responsibilities of the position. Job audits that are completed by the Classification Section must be signed and approved by the appointing authority before the classification analyst can complete the audit.

• **Progressive Classification Series Program** – Performance-level classification where the levels of the duties are different but the types of duties and nature of work are the same. Classes in a series generally are alike and increase in the level of responsibility, complexity of duties, and amount of supervision required in the job performance. For example, the position of Management Analyst comprises different levels, classified as Analyst I, II, III, etc., all the way up to Management Analyst Supervisor. However, the management analysts in this class title all share the same type of duties and nature of work.

• **Maintenance Studies** – CSA conducts maintenance studies to combine similar classes, deconsolidate classes that are too broad, create classes where there are a number of positions performing similar duties, and revise and update classes or class series. CSA then ensures that employees are properly classified. Maintenance studies may be performed for classes that are Citywide or within an agency.

According to CSA personnel, eight analysts conduct classification audits. Collectively, CSA analysts completed 199 classification audits in 2009 and 240 in 2010.

**Compensation Section**

The Compensation Section performs the annual pay survey, which compares City and County of Denver salaries to other public and private sector salaries to determine whether City salaries are competitive. The pay survey is normally started in October of each year and is approved by the City Council in April or May of the following year. The Compensation section also created the recent flexible merit increase matrix (see Finding 1 for more information).

**Benefits Section**

The Benefits Section maintains the full range of benefits for City employees. CSA contracts with a benefits broker, who in turn bargains with major medical and dental providers (e.g., Denver Health, Kaiser Permanente, and Delta Dental) to get the best price possible for the City. Benefits Section staff members also serve as liaisons to the Employee Health Insurance Committee.

Additionally, this section assists employees with benefit selection and status changes, such as getting married or having a child. The Benefits Section also maintains the paperwork and database for all employee records regarding benefits. In 2010, the Benefits Section outsourced a dependent eligibility audit for CSA.

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 CSA identified and removed the records of approximately 1,100 ineligible dependents from the City’s benefits program
employees. As a result of the audit, CSA purged the records of approximately 1,100 ineligible dependents from City benefits.

**Wellness Section**

The Wellness Section administers the City Wellness Program, which provides services to ensure a healthy, productive, and happy workforce. There are two major functions of the Wellness section: maintaining a fully equipped and staffed Wellness Center within the Webb Municipal Building, and offering a citywide wellness program, known as Denver Wellness.

The Wellness Center is the gym located in the Webb Municipal Building. It provides health and wellness programs and services to all City employees and is funded entirely by participant fees. The Center offers a full range of exercise equipment and classes, health assessments, biometric testing, fitness challenges, and weight-management courses for employees.6

Denver Wellness offers a variety of wellness programs, events, and activities to City employees. Some of the programs include America on the Move, the Fabulous Food Festival, Weight Watchers, and the Stairwell Challenge.

**Division-Wide Accomplishments**

During the course of our audit, we identified several accomplishments made by these four sections, including:7

- Developing and publishing a Classification manual, which has won national awards and recognition as a best practice
- Completing the Total Compensation Study and implementing all of the associated recommendations
- Implementing the 2009 Pay Survey structure adjustments
- Creating and implementing the PTO (Paid Time Off) system for new employees
- Contracting for the Dependent Eligibility Audit and removing the records of approximately 1,100 ineligible dependants of CSA employees
- Implementing the second phase of the 2009 Citywide Wellness Initiative, which included the Premium Discount Program

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SCOPE

The audit examined the Career Service Authority’s Classification, Compensation and Benefits Division and the related programs, including Denver Wellness, and services provided to the City and County of Denver and its employees. This included a review of policies and procedures, information system controls, contracts, and key department performance measures. The audit period was January 1, 2009 through May 1, 2011.

OBJECTIVES

The objective of this performance audit was to examine and assess the Career Service Authority’s Classification, Compensation and Benefits Division. This included an evaluation of program effectiveness and identifying inefficiencies and opportunities for improvement. Specifically our objectives were to determine and assess the following:

- Whether pay adjustments based on employee performance ratings are equitable to all City employees
- Whether any discrepancies exist between pay philosophy and pay for performance
- Whether performance measures utilized by the sections effectively gauge success
- Whether the system user access controls for the benefits information system are adequate
- Whether the Health Advisory Committee used to select City benefits and the benefit selection process is effective
- Whether the CSA Board effectively fulfills its roles and responsibilities related to the Classification, Compensation and Benefits Division
- Whether the City has sufficiently invested in its wellness initiatives to maximize the return to the City and the benefit for employees

METHODOLOGY

The audit team used numerous evidence-gathering and analysis techniques to assess key risks within the Career Service Authority Classification, Compensation and Benefits Division and to meet the audit objectives. These methods included but were not limited to:

- Interviewing various Career Service Authority (CSA) management officials
• Reviewing related sections of the Denver Revised Municipal Code, City Executive Orders, and Colorado statutes
• Assessing CSA rules and how they relate to compensation and benefits
• Reviewing CSA’s internal policies and procedures governing classification, compensation, and benefits
• Evaluating CSA’s organizational and oversight approach, including the role of the CSA Board
• Benchmarking with other local government municipalities to identify common practices
• Evaluating methodologies utilized by CSA to make benefit and compensation decisions
• Reviewing the results of the independent audit of survey methodologies, determinations regarding generally prevailing rates and prevailing practices, and recommendations regarding pay rates and benefits made by the CSA Board or the CSA Director within the audit period
• Assessing the Total Compensation Study conducted for CSA in March 2009
• Evaluating compensation studies conducted by other municipalities
• Reviewing the Request for Proposal submitted by ConSova for the dependent eligibility audit
• Assessing management controls over information contained in the health benefit information systems
• Reviewing CSA contracts with the benefit broker, benefit providers, and other consultants
• Reviewing federal legislation regarding employee benefit programs
• Reviewing historical internal audit reports issued by the City and County of Denver’s Auditor’s Office
• Reviewing the 2010 State of Colorado Performance Audit of the Employee Benefits Program Department of Personnel and Administration
• Reviewing audits conducted by other audit organizations
• Reviewing the 2010 Management Letter issued by the external auditors
FINDING 1

Opportunities Exist for CSA to Strengthen Recently Implemented Pay Matrix Employee Compensation Program

The Career Service Authority (CSA) Board has not developed a centralized compensation philosophy. As a result, CSA may face difficulty recruiting, promoting, and retaining top talent in the City. The CSA Board oversees one of the City’s most important, and expensive resources: its personnel. Current CSA personnel costs (salary and benefits) are approximately $573 million. Further, CSA rules state that the Board is “responsible for adopting, administering and enforcing rules necessary to foster and maintain this merit-based personnel system.”

Therefore, it is imperative that the CSA Board is directly involved in merit compensation matters that affect CSA personnel. While establishing a formal, centralized compensation philosophy is not required by CSA Rules or D.R.M.C., defining the merit-based personnel system within a formal policy is essential in helping guide CSA staff as they design programs that support and uphold the City’s merit-system philosophy.

Establishing a formal compensation philosophy is a best practice implemented by many successful companies — It is standard practice for any organization to have a statement of compensation philosophy. According to the Institute of Internal Auditors (IIA) report entitled Auditing Compensation and Benefits Programs, it is important to develop a total rewards policy. Specifically, the report says, “A reward philosophy gives both managers and employees a better understanding of the organization's positions on compensation and benefits.” The same study further confirms the importance of a written compensation philosophy and states that 71 percent of the companies in the top quartile for financial performance have a written compensation philosophy.

The lack of a formal CSA compensation philosophy has led to a pay matrix that is not sufficiently merit-based — As a result of a lack of a centralized compensation philosophy, CSA implemented a pay-increase tool that is not aligned with a merit-based compensation philosophy. Guidance provided by a documented compensation philosophy will assist CSA staff while performing their compensation duties, thus conforming to the pay philosophy and, in this case, a merit-based or pay-for-performance system. The premise behind pay for performance, which is a merit-based system, is that employees are motivated to perform at their highest level in return for reciprocal compensation. However, the new merit pay matrix contradicts this premise.

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8 CSA Rule 2, Section 2-11 (B)
As the table below demonstrates, the merit performance matrix allows a manager to award an employee who is rated “Below Expectations” with a potential 1.8 percent increase in pay, depending on the quartile into which the employee falls. However, an employee who is rated “Exceeds Expectations” could also receive an identical 1.8 percent increase in pay. Accordingly, this current merit pay matrix is not equitable to employees throughout all quartiles, specifically the third and fourth quartile; arguably, employees in higher quartiles are at a disadvantage when being considered for a raise. Inequality aside, it is difficult to understand why the City would want to reward underperforming employees at all.

<table>
<thead>
<tr>
<th>Rating</th>
<th>First Quartile</th>
<th>Second Quartile</th>
<th>Third Quartile</th>
<th>Fourth Quartile</th>
</tr>
</thead>
<tbody>
<tr>
<td>5. Outstanding</td>
<td>3.5 – 3.9%</td>
<td>2.9 – 3.3%</td>
<td>2.4 – 2.8%</td>
<td>1.9 – 2.3%</td>
</tr>
<tr>
<td>4. Exceeds Expectations</td>
<td>2.9 – 3.3%</td>
<td>2.4 – 2.8%</td>
<td>1.9 – 2.3%</td>
<td>1.4 – 1.8%</td>
</tr>
<tr>
<td>3. Successful</td>
<td>2.4 – 2.8%</td>
<td>1.9 – 2.3%</td>
<td>1.4 – 1.8%</td>
<td>0.8 – 1.2%</td>
</tr>
<tr>
<td>2. Below Expectations</td>
<td>0.0 – 1.8%</td>
<td>0.0 – 1.2%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>1. Failing</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Source: CSA Rule 13-32

The new merit pay matrix could result in higher-quartile employees feeling undervalued and may, contrary to the intent of the program, de-motivate employees to exceed performance expectations in the future if they feel they are not being fairly and equitably compensated for their performance, relative to other employees. An unmotivated workforce could result in reduced quality of services for the City and could negatively affect retention of high-performing employees.

A formal compensation philosophy increases transparency and accountability — Some municipalities have developed a formal compensation philosophy for employees and the public. For example, both Fayetteville, Arkansas and Tacoma, Washington have formal compensation philosophies that are displayed directly on their websites. Each city’s website outlines the city’s philosophy regarding pay and benefits. Further, the philosophies identify peer benchmark cities ensuring that their salaries are comparable to those in similar marketplaces.

Denver taxpayers, City policymakers, as well as current and potential employees do not have one centralized source to help them to understand the City of Denver’s compensation philosophy, thereby impairing transparency and accountability related to one of the City’s major cost centers. The public has a right to understand how the City is

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10 Quartiles represent four separate categories within a classified pay range. The employee’s salary on the classified pay range determines in what quartile the employee is assigned. In all cases, the higher the employee’s salary, the higher quartile the employee will be placed.
spending tax dollars for City and County employee salaries. Further, the Mayor and City Council need a clear understanding of the CSA Board’s compensation philosophy to help evaluate the appropriateness of current or new policies related to employee pay. Finally, it is important for potential City employees to understand how they will be compensated, and whether Denver’s compensation and benefits are competitive with peer municipalities and organizations. The lack of a transparent compensation philosophy could impair the City’s acquisition and retention of top talent.

More importantly, organizations without a clear, written reward philosophy risk rewarding employees inconsistently, which in turn increases the risk of violating anti-discrimination laws. An unclear or vague philosophy provides little guidance for managers when presenting job offers or pay increases, which can result in disgruntled employees.\(^\text{11}\)

A centralized, written compensation policy would provide CSA professionals with a valuable tool for creating, managing, and measuring compensation programs. Moreover, the Board should better align the current merit pay matrix with the City’s merit-based philosophy, to ensure that employees who perform below the “Successful” rating do not receive a pay increase.

**RECOMMENDATIONS**

1.1 The CSA Board should adopt a formal centrally located compensation philosophy based upon the City’s current merit-system compensation ideals.

1.2 To assist in the creation of a formal compensation philosophy, the Board should research merit-based compensation philosophies based on human resource best practices along with examining the compensation practices of peer municipalities.

1.3 The Board should subsequently re-evaluate the flexible merit increase table, quartiles, and percent pay increases to ensure that they align with the City’s pay philosophy.

1.4 The Board should ensure that future merit matrix tables exclude pay increases for employees who perform below the “Successful” rating.

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FINDING 2

Significant Savings and Cost Reductions Can Be Realized with a Modest Investment in the City’s Wellness Program

CSA currently offers City employees a wide range of wellness activities with very limited monetary resources. To have a greater impact in the future including increased cost savings, changes to the program are needed. Audit work found that organizations, both in the public and private sectors that invest in wellness programs experience significant dollar savings and cost reductions. These savings are realized in the form of reduced insurance benefit costs from insurance providers, more productive employees, higher employee retention, lower stress levels, and a greater sense of overall well-being, among others.

The wellness program-management industry is evolving rapidly. Each month, the industry releases new research findings supporting the premise that wellness programs and disease management have a long-term, positive impact on healthcare costs. Many large companies that started Wellness Programs three to five years ago are experiencing savings in health, disability, and workers compensation costs. For example, PepsiCo’s health care costs dropped four percent after the implementation of a robust wellness program. Small to mid-size companies are monitoring these developments and evaluating where to start with their own wellness initiatives. A review of a best practice article from wellnessprogramsatwork.com indicated that two of the biggest challenges to implementing a successful wellness program in the workplace are management buy-in and budgetary support. The Wellness Council of America also identifies capturing CEO support as its number-one benchmark of success.

A review of the 2009 and 2010 City budgets revealed that CSA’s Wellness Program receives no dedicated funding to conduct its wellness initiatives. Budgeted amounts relate solely to the Wellness Center, the workout facility in the Webb Municipal Building available to City employees on a fee-for-service basis. While no monies are allocated specifically to the Wellness Program, funding is available occasionally through insurance credits or insurance provider wellness incentives. However, these funds are static and cannot be relied upon to support and conduct wellness activities on a consistent basis.

CSA personnel interviewed during audit work indicated that support for the City’s Wellness Program by the Mayor and the Director of CSA fluctuates over time and it

15 See Exhibit A for ten steps to consider when implementing a wellness program.
appears that the City’s Wellness Program may be perceived as low priority by these two entities. Certainly, the strain on the City’s budget forces decision makers to prioritize financial necessities over value-added employee benefits, such as the Wellness Program. However, City leaders and key decision makers may not be aware of the whole host of benefits a comprehensive and sustainable wellness initiative can provide, including significant returns on investment.

Research shows a return on investment of up to $10.10 for every dollar spent on corporate health promotion programs

The Wellness Program currently offered to City employees is primarily an activity-based program, meaning that it focuses on participation in and completion of wellness activities. Activities offered through CSA include “America on the Move,” the “Stairwell Challenge,” and the “Fabulous Food Festival,” among others. When an employee completes a health assessment through his or her insurance provider and participates in a qualifying activity, the employee is eligible for a wellness credit which is a slight cost offset in the amount the employee pays for medical insurance. While an activity-based program is a good starting point for the City’s Wellness Program, moving to a results-based program may produce a greater positive impact on the City’s workforce.

Currently, the Wellness Section is not tracking the effectiveness of the City’s Wellness Program on an individual basis. However, the Section is tracking results at an aggregate level. A results-based wellness program focuses on the outcomes of program participation, analyzing trends over time and identifying the impact on individual employees. The ability to track specific health issues among City employees would most likely lead to lower health care costs for the insurer and, in return, lower premiums for both employees and the employer. A results-focused program identifies specific needs on an individual basis and in turn creates programs or activities to meet those needs. Municipalities can contract with third parties, such as a health-care provider, to conduct needs assessment while continuing to protect the privacy of health information of individual employees. Moving to a results-based program would require additional funding for the time and money associated with the tracking of specific results and the creation of a well-designed program.

Certainly, all City administrators are reluctant to increase funding for any program during such tough economic and budgetary times and the Auditor’s Office clearly understands current City budgetary limitations and priorities. However, increased investment in the City’s Wellness Program has the potential to reduce personnel-related costs for the City and its employees and therefore any investment decisions should be examined from this perspective by City administrators.

16 See Exhibit B for Denver Wellness participation numbers.
17 A third party can protect an individuals’ personal information and additional risks related to the Health Insurance Portability and Accountability Act (HIPAA). HIPAA provides privacy standards to protect patient medical records and other health related information.
officials. Industry research suggests that investment in wellness programs results in many positive effects for the organization and its employees. The benefits include, but are not limited to: reduced health care costs, improved fitness, increased productivity, improved employee morale, decreased absenteeism, lower rates of disease and injury, higher employee retention, and lower stress levels.\textsuperscript{18} Company Health and Wellness Program Statistics depict a savings of $2.30 to $10.10 for every dollar spent on corporate health promotion programs, realized on a dollar-for-dollar basis.\textsuperscript{19} For example, based on these return-on-investment numbers, an investment of only $100,000 in the City’s Wellness Program could result in a return on investment of anywhere between $230,000 and $1,010,000.

RECOMMENDATIONS

2.1 The CSA Board should provide a strategic business plan to the Mayor, City Council, and other City leadership on the benefits of a well-supported and well-funded Wellness Program. This information should include potential dollar savings (ROI) for the City and other benefits, including lower health care premium costs, decreased absenteeism, a healthier workforce, more productive employees, and a reduction in employee turnover.

2.2 The CSA Board should implement a results-based Wellness Program. This change in philosophy would require tracking results of individual employees and allow for Wellness Programs to be tailored more specifically to the employees they are designed to assist.

\textsuperscript{18} Accessed on 1/26/11, \textit{Company Wellness Statistics}.

\textsuperscript{19} “Company Health and Wellness Program Statistics”, \textit{supra} note 1, at 2.
CSA’s Management of the Classification Audit Process is Ineffective

CSA’s Classification Section conducts individual position audits when an employee’s duties for an existing position change to such an extent that another existing job classification aligns better with the employee’s current job duties. However, CSA Rule 7 states that CSA may not initiate individual position audits until an Appointing Authority endorses the request for an audit. In addition, CSA’s Classification Manual specifies that the job audit may only evaluate the duties assigned to a position, not how an employee performs the job.

Inefficient Classification Audit Process May Lead to Arbitrary Classification Changes of City Employee Job Titles

After receiving an audit request, CSA determines whether to conduct either a desk audit or a field audit, based on initial information the employee and the agency submit. In the Classification Audit process, the “Request for Classification Consideration” specifies what forms and information is required by the CSA analyst to obtain including current and previous Performance Enhancement Plans (PEPs), current and previous organizational charts, the date on which the employee started performing the new duties, and signatures from the sponsoring agency. With this background and support information, the Classification Manual allows the CSA analysts 70 days to complete the job audit.

Job classification audit files did not contain all required information — Our review of CSA job audit files determined that much of the information required by CSA is often incomplete when submitted and ultimately insufficient to support a sound analysis and determination of an employee’s job classification. In fact, auditors tested 29 individual classification audit files and found that 44 percent lacked either the current or prior year PEP; 17 percent of reviewed files did not indicate the date on which the employee started performing the new duties; and another 17 percent did not have the required signatures from the sponsoring agency. Analysts cannot reach a sound and definitive conclusion for a classification audit without complete information. In fact, for the majority of the classification audits we reviewed, CSA analysts ultimately ended up interviewing employees and supervisors, regardless of how much of the information was available in the files. This information should have been provided by the applicants and

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21 According to CSA’s Classification Manual, page 4-5, a field audit requires the Classification Analyst to meet and conduct interviews with the employee and possibly the supervisor. A desk audit is conducted when a classification decision can be made based on the information submitted on the audit request form.
22 Auditors reviewed a sample of 34 files; 5 files from each of the classification analysts and 4 files from classification director. However, 5 files were removed from the sample as they were for class studies.
agencies in the initial stages of the classification audit. However, because CSA does not enforce its documentation-requirement procedures, and because CSA lacks a thorough internal quality control file review, CSA analysts add extra steps to their review process, diminishing timeliness and efficiency of the audit process.

**Many job classification audits are not timely** — Audit work also found that 41 percent of the classification audits tested were not completed within the required 70-day timeframe. Further, we question why analysts require 70 days to perform a job audit, especially since time tracking does not begin until all required information has been received from the appointing agency. Untimely classification audits can result in poor customer relationships with City agencies being supported by CSA and reflect negatively on CSA when City employees and agencies are not provided with a timely resolution to their request.

As illustrated in Table 1, CSA completed 199 classification audits in 2009 and 240 in 2010. For the two-year period, approximately 79 percent of the classification audits resulted in employees being upgraded from their current classification status; roughly 13 percent resulted in no change from the current classification status; 2 percent were either rejected or withdrawn; 3 percent resulted in a class downgrade; and 3 percent resulted in a change in class without a change in associated pay grade.

<table>
<thead>
<tr>
<th>Classification Audit Outcome</th>
<th>2009 Outcome</th>
<th>2009 Percentage</th>
<th>2010 Outcome</th>
<th>2010 Percentage</th>
<th>'09-'10 Total Outcome</th>
<th>'09-'10 Combined Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upgrade</td>
<td>153</td>
<td>77%</td>
<td>192</td>
<td>80%</td>
<td>345</td>
<td>79%</td>
</tr>
<tr>
<td>Downgrade</td>
<td>12</td>
<td>6%</td>
<td>3</td>
<td>1%</td>
<td>15</td>
<td>3%</td>
</tr>
<tr>
<td>No Change</td>
<td>25</td>
<td>12.6%</td>
<td>34</td>
<td>14%</td>
<td>59</td>
<td>13%</td>
</tr>
<tr>
<td>Class Change</td>
<td>6</td>
<td>3%</td>
<td>6</td>
<td>2.5%</td>
<td>12</td>
<td>3%</td>
</tr>
<tr>
<td>Audit Withdrawn</td>
<td>3</td>
<td>1.5%</td>
<td>4</td>
<td>2.5%</td>
<td>7</td>
<td>2%</td>
</tr>
<tr>
<td>Audit Rejected</td>
<td>0</td>
<td>0%</td>
<td>1</td>
<td>.42%</td>
<td>1</td>
<td>0%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>199</td>
<td>100%</td>
<td>240</td>
<td>100%</td>
<td>439</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: CSA Job Classification Audit Files

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23 According to CSA’s Classification Manual, when the Appointing Authority requests an individual position audit, there are four possible outcomes. Classification audits, in fact, could result in the position being upgraded to a higher classification (Upgrade); downgraded to a lower classification (Downgrade); the position may be reallocated to a classification at the same pay grade in a different occupational area (Class Change); and the position maintains the same classification (No Change). Occasionally, after submitting a request for a position audit, the agency may withdraw the request for different reasons (Audit Withdrawn); in other instances, if an agency requests an audit for a vacant position and the application is faulty, CSA will reject that request (Audit Rejected).
Job classification audit resources may be better allocated — CSA should determine whether the classification audit function is necessary when, as the information in Table 1 shows, four out of five classification audits result in a class upgrade. Since a 70-day process leads to the same result 80 percent of the time, we question whether or not CSA’s classification-audit resources could be better utilized elsewhere within CSA. Furthermore, the audit process does not even begin until the requesting agency has approved the reclassification proposal. Arguably, CSA is repeating work already performed by the agency, which has a much better technical understanding of the requirements needed for the positions they oversee.

Audit work also determined that, as noted, much of the documentation required for classification audits is incomplete when submitted, based on CSA classification files reviewed. Therefore, we question the legitimacy and soundness of the classification audits. This lack of internal quality control of the classification audit files further diminishes the legitimacy of the classification process.

Lack of segregation of duties may corrupt classification audit data — CSA uses a database called AuditTrack to track and document job classification audit data. Audit work revealed that one of the classification analysts who performs classification audits is also the backup to the human resource technician who enters the job classification audit data into AuditTrack. As backup, this analyst has administrative access to information about job classification audits. This lack of segregation of duties increases the likelihood of data corruption and compromises the integrity of the information. CSA classification analysts are held accountable for timely completion of position audits as their average audit completion time is measured in their annual performance evaluation. CSA should ensure that administrative access rights to the classification database be granted only to personnel who are not directly impacted by audit data and results as part of their annual performance evaluation.

Based on the inefficiencies identified in CSA’s classification audit process, the City may be spending monies on a function that adds little value to City employees. To make an ultimate determination, CSA should conduct a cost-benefit analysis to determine whether the Classification Audit function is necessary. The analysis should evaluate the average cost of completing a classification audit and identify the percentage of classification audits that result in upgrades, no-change, and downgrades. If, based on the results, CSA determines that classification audits should continue, the CSA Board should evaluate methods for increasing the efficiency of the process including an assessment of whether current documentation required for completing classification audits are necessary and add value to the process.

RECOMMENDATIONS

3.1 The CSA Board should conduct a cost-benefit analysis in order to determine if the Classification Audit function is necessary. The analysis should evaluate the average cost of completing a classification audit and identify the percentage of classification audits that result in upgrades, no-change, and downgrades. Based on the results, the Board should determine whether to continue conducting classification audits.
3.2 If the CSA Board determines that classification audits should continue, the CSA Board should evaluate methods for increasing the efficiency of the process including an assessment of whether current documentation required for completing classification audits are necessary and add value to the process.

3.3 The CSA Board should ensure that administrative access rights to the classification database only be granted to personnel not directly responsible for audit data and results.
### Exhibit A – 10 Steps to Wellness Implementation

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Begin with executive management. Without executive management support, a wellness strategy can fail flat. Begin with the health of your executive team and discover your wellness champions at the top of the organization.</td>
</tr>
<tr>
<td>2</td>
<td>Analyze the problem. Look at your healthcare claims and analyze the trends. Which conditions are driving your medical, disability, and workers’ compensation claims and which are modifiable? What’s worked and what hasn’t as a result [so] far? What’s the long-term impact of doing nothing?</td>
</tr>
<tr>
<td>3</td>
<td>Hold an initial wellness meeting. Invite your key stakeholders both inside and outside the company. Ask your broker to facilitate the meeting and invite key health vendors including health, disability, Staff Member Assistance Program (EAP), fitness, and occupational nursing. Review claims and utilization data and identify key areas of concern. Look at current offerings and see how they are able to be tailored to the needs of the population.</td>
</tr>
<tr>
<td>4</td>
<td>Consider both healthful and unhealthful employees. Since 85 percent of claims are usually attributed to 15 percent of claimants, it’s essential to reach those with the most costly conditions while also reaching people who are at risk for developing preventable diseases in the future. Voluntary wellness programs such as lunchtime wellness seminars miss many of the individuals who need them most. Consider programs that are population-wide or target intact workgroups. Wellness incentives help but don’t motivate everyone.</td>
</tr>
<tr>
<td>5</td>
<td>Be sure to set short-term goals for the wellness programs. Be sure to set some realistic short-term goals based on your key areas of concern. Are there any plan design changes that could have an immediate impact on spending? Are there some programmatic actions that could have immediate results?</td>
</tr>
<tr>
<td>6</td>
<td>Find out what staff members are thinking. Hold some focus groups to determine where individuals are with wellness. What’s working? What isn’t? How much interest do individuals have in the Wellness Programs? What obstacles and barriers are staff members experiencing when they try to change behavior?</td>
</tr>
<tr>
<td>7</td>
<td>Be certain [you have] a high-impact Employee Assistance Program (EAP). Your first wellness dollars should go into upgrading your Employee Assistance Program (EAP). A highly utilized Employee Assistance Program (EAP) can provide a foundation for all your future wellness activities. A good Staff Member Assistance Program (EAP) is a trusted link to the hearts and minds of staff members. At no additional cost, the Staff Member Assistance Program (EAP) can provide needed follow-up coaching and personal attention for staff members who are working on modifiable health behaviors or involved in disease management programs. Nutritionists, fitness, pregnancy, and stress management professionals are all part of a high-value Employee Assistance Program (EAP).</td>
</tr>
<tr>
<td>8</td>
<td>Be sure to set three to five year goals for health care savings and measure them. Get help from your broker and insurance carrier [to] help you on long-term goals for your health, disability, and staff member’s compensation plans. Establish program metrics that’ll help you to measure ROI. Go beyond participation rates, completion rates and program satisfaction. Measure changes in readiness, changes in behavior, and changes in risk factors. Establish rigorous methods to measure health care savings over the long term.</td>
</tr>
<tr>
<td>9</td>
<td>Be sure to set goals for organizational health. Consider the more intangible benefits of a wellness program and quantify them whenever possible. Include staff member turnover rates, cost of new hires, staff member morale, benefit satisfaction data, and corporation of choice issues in setting goals. Establish ways to measure success in these areas.</td>
</tr>
<tr>
<td>10</td>
<td>Add specifics to your short and long-term plan. Include a program strategy, a communication strategy, and an incentive strategy that’ll fit with your corporate culture. Focus on integration of related components along a health continuum with communications that are focused, simple, and human. Establish a budget that includes key components such as consumer education, wellness, health risk assessment and regular biometric screenings.</td>
</tr>
</tbody>
</table>

Exhibit B – Wellness Participation

<table>
<thead>
<tr>
<th>Activity</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008</td>
</tr>
<tr>
<td>Health Assessment</td>
<td>958</td>
</tr>
<tr>
<td>Stairwell Challenge</td>
<td>188</td>
</tr>
<tr>
<td>Fabulous Food Festival</td>
<td>0</td>
</tr>
<tr>
<td>America on the Move</td>
<td>474</td>
</tr>
<tr>
<td>Holiday Festival</td>
<td>79</td>
</tr>
</tbody>
</table>

Source: Denver Wellness

Exhibit C – Flexible Merit Increase Table

<table>
<thead>
<tr>
<th>Rating</th>
<th>First Quartile</th>
<th>Second Quartile</th>
<th>Third Quartile</th>
<th>Fourth Quartile</th>
</tr>
</thead>
<tbody>
<tr>
<td>5. Outstanding</td>
<td>3.5 – 3.9%</td>
<td>2.9 – 3.3%</td>
<td>2.4 – 2.8%</td>
<td>1.9 – 2.3%</td>
</tr>
<tr>
<td>4. Exceeds Expectations</td>
<td>2.9 – 3.3%</td>
<td>2.4 – 2.8%</td>
<td>1.9 – 2.3%</td>
<td>1.4 – 1.8%</td>
</tr>
<tr>
<td>3. Successful</td>
<td>2.4 – 2.8%</td>
<td>1.9 – 2.3%</td>
<td>1.4 – 1.8%</td>
<td>0.8 – 1.2%</td>
</tr>
<tr>
<td>2. Below Expectations</td>
<td>0.0 – 1.8%</td>
<td>0.0 – 1.2%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>1. Failing</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Source: Career Service Authority Rule 13
AGENCY RESPONSE

Career Service Authority
Denver's Human Resource Agency

Christopher M.A. Lujan Esq.
Interim Director
201 W. Colfax, Dept. 412
Denver, CO 80202
p: 720.913.5572
f: 720.913.5720

04 October 2011

Mr. Kip R. Memmott, MA, CGAP, CICA
Director of Audit Services
Office of the Auditor
City and County of Denver
201 West Colfax Avenue, Dept. 705
Denver, Colorado 80202

Mr. Memmott:

The Office of the Auditor has conducted a performance audit of the CSA Classification, Compensation and Benefits Division for the audit period beginning 01 January 2009 through 01 May 2011.

This memorandum provides a written response for each reportable condition noted in the Auditor’s Report final draft that was sent to us on September 13, 2011. This response complies with Section 20-276 (b) of the Denver Revised Municipal Code (DRMC).

AUDIT FINDING 1: Opportunities Exist for CSA to Strengthen Recently Implemented Pay Matrix Employee Compensation Program

RECOMMENDATION 1.1: The CSA Board should adopt a centrally located and formal compensation philosophy based upon the City’s current merit-system compensation ideals.

<table>
<thead>
<tr>
<th>State your agreement or reason for disagreement with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of primary individual responsible for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>30 June 2012</td>
<td>Bruce Backer 720-913-5643</td>
</tr>
</tbody>
</table>

RESPONSE/ACTION PLAN: Although the Chapter 9 of the City Charter, Chapter 18 of the Denver Revised Municipal Code (DRMC), Career Service Authority (CSA) Rules 7, 8, 9 and 13, the Classification Manual and the Pay Survey Manual all contain elements of the city’s compensation philosophy, a unique document capturing the essence of our compensation philosophy would be especially helpful for new policy
makers such as the newly elected and appointed officials of the city. The CSA compensation unit will create a draft philosophy and socialize it with the Administration, CSA Board and City Council before the end of 2011.

RECOMMENDATION 1.2: To assist in the creation of a formal compensation philosophy, the Board should research merit-based compensation philosophies based on human resource best practices along with examining the compensation practices of peer municipalities.

<table>
<thead>
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</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

RESPONSE/ACTION PLAN: Discussion of alternative merit plan design options and best practices was the foundation of the Total Compensation project which was completed in 2009. With the assistance of the compensation practice leader from Milliman Consulting, members of the CSA Board and representatives from the Mayor’s Office and City Council participated in the development and design of the five “areas of modernization” focused on improving the city’s pay for performance and merit increase programs. The consultant served as a resource for sharing national best practices with the team.

Among the changes implemented were the:

- Elimination of the step based salary structure and creation of an open range pay structure;
- Creation of a flexible merit increase table;
- Increase in the number of performance ratings from 3 to 5; and
- Movement to a common review date for all performance appraisals and merit increase.

Further, the technical design of the city’s merit increase plan is based on best practices as defined by World at Work, the international compensation training and certification organization.
Finally, the Compensation team is continually updating its awareness of what is going on in the market by participating in the Rocky Mountain Compensation Association, attending annual market survey updates at Mountain States Employers Council, and working toward the certified compensation professional designation offered by World at Work.

RECOMMENDATION 1.3: The Board should subsequently re-evaluate the flexible merit increase table, quartiles, and percent pay increases to ensure that they align with the City’s pay philosophy.

<table>
<thead>
<tr>
<th>State your agreement or reason for disagreement with Recommendation</th>
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</thead>
<tbody>
<tr>
<td>Agree</td>
<td>30 June 2012</td>
<td>Bruce Backer 720-913-5643</td>
</tr>
</tbody>
</table>

RESPONSE/ACTION PLAN: The current merit table is aligned with the city's compensation philosophy. Elements of this philosophy include:

- Compensating employees based on their performance as defined in an outcome (results) based performance management process;
- Providing larger increases for employees who are below the market rate for the job then slowing them down as they approach the maximum;
- Compensating “Successful” performers up to the market rate for their positions and not allowing them to move to the end of the range;
- Providing a lump sum merit increase for employees who are at or over the top of the range;
- Providing managers and supervisors with limited discretion in granting merit increases within the framework of a merit increase table; and
- Utilizing a merit increase table and worksheets for all employees in the career service.
The technical methodology for creating the merit increase table was derived from World at Work.

However, the CSA compensation team will agree to re-validate the design of the merit increase table for 2012 with policymakers and managers from across the city as part of our annual implementation process.

RECOMMENDATION 1.4: The Board should ensure that future merit matrix tables exclude pay increases for employees who perform below the “Successful” rating.

<table>
<thead>
<tr>
<th>State your agreement or reason for disagreement with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of primary individual responsible for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>31 March 2012</td>
<td>Bruce Backer 720-913-5643</td>
</tr>
</tbody>
</table>

RESPONSE/ACTION PLAN: One long standing policy the city has continued to practice is the notion of moving high performing employees to the middle of the pay range more quickly and then slowing their merit increase down after they reach the midpoint of the range or the market rate.

Providing a merit increase to employees who were rated as “Below Expectations” in their annual PEPR was thoroughly vetted with policymakers and managers across the city. The decision to provide an increase was based on the possibility that some managers could rate employees who recently joined the city or were promoted to a higher class at the “Below Expectations” rating because they were not achieving the performance standards for their new position. Not providing them some type of increase would signal they were poor performers and possibly demotivate them.

Eighty-three (83) or 1.2 percent (%) of the employees evaluated in the 2011 merit program were rated “Below Expectations” and received a merit increase. Clearly, the policy of providing a merit increase to some employees in this rating did not have significant impact on the merit plan.
However, the compensation team will reevaluate this policy with decision makers as part of the 2012 merit increase process implementation.

**AUDIT FINDING 2:** Significant Savings and Cost Reductions Can Be Realized with an Investment in the City’s Wellness Program

**RECOMMENDATION 2.1:** The CSA Board should provide a strategic business plan to the Mayor, City Council, and other City leadership on the benefits of a well-supported and well-funded Wellness Program. This information should include potential dollar savings (ROI) for the City and other benefits, including lower health care premium costs, decreased absenteeism, a healthier workforce, more productive employees, and a reduction in employee turnover.

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<thead>
<tr>
<th>State your agreement or reason for disagreement with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of primary individual responsible for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>Completed</td>
<td>Corrine Freese 720-913-5688</td>
</tr>
</tbody>
</table>

**RESPONSE/ACTION PLAN:** A multi-year wellness strategy was shared and approved by the administration in 2009. The wellness team is starting year 3 of the implementation of that strategy.

The current administration has agreed support the strategy by funding the wellness incentives in an amount of approximately $250,000 for 2012. This is an increase of nearly $100,000 from 2011. In addition, the wellness team has secured $60,000 on in kind services from 2 of the medical plan carriers for 2012.

**RECOMMENDATION 2.2:** The CSA Board should implement a results-based Wellness Program. This change in philosophy would require tracking results of individual employees and allow for Wellness Programs to be tailored more specifically to the employees they are designed to assist.
State your agreement or reason for disagreement with Recommendation | Target date to complete implementation activities (Generally expected within 60 to 90 days) | Name and phone number of primary individual responsible for implementation
---|---|---
Agree | 01 September 2014 | Corrine Freese 720-913-5688

RESPONSE/ACTION PLAN: The wellness team will continue its implementation of its strategy over the next several years. For 2011 - 2012, the program is being expanded to include a nutrition component along with completion of a health risk assessment and physical activity challenge. The nutrition component encompasses a 6 week self-directed, healthy eating program as defined by the United States Department of Agriculture 2012 Dietary Guidelines for Americans. With the implementation of this third requirement to the program, the team can consider adding other plan improvements for 2012 – 2013 if CSA’s annual budget will allow for these improvements.

However, some significant hurdles must be overcome. In order to implement an individual results based model suggested in the audit, the team will need to acquire software to support this level of programming. A review of potential vendors and funding sources is currently underway. There may be significant cost attached to this software. Second, there is a significant amount of case law that suggests employers must be very cautious in requiring employees to do certain things to enroll in the organization’s benefit plans. We will have to ensure our plan design will pass any and all legal tests.

AUDIT FINDING 3: CSA’s Management of the Classification Audit Process is Ineffective.

RECOMMENDATION 3.1: The CSA Board should conduct a cost-benefit analysis in order to determine if the Classification Audit function is necessary. The analysis should evaluate the average cost of completing a classification audit and identify the percentage of classification audits that result in upgrades, no-change, and downgrades. Based on the results, the Board should determine whether to continue conducting classification audits.
RESPONSE/ACTION PLAN: We do not agree that the classification process is ineffective. This conclusion appears to be based on an assumption by the audit team that this process begins with the receipt of a PEP and organization chart for the employee being audited. This is a mistaken conclusion. Rather, our standard process as defined in the Classification Manual includes an interview of both the employee being audited and the supervisor. These are two of the critical steps in our process. These steps ensure the data we capture accurately reflects what the employee actually does. The PEP and organization chart if available merely aid in our preparation process for the audit.

We are unsure and have not seen any supporting documentation to support the finding that 41% of the audits take more than 70 days. Our standard to complete an audit is 40 days. The classification team’s actual average time to complete an audit for the last two years is 33 days or less. Over the last 3 years the team has enjoyed an 80% overall satisfaction rating from clients as measured by our client feedback surveys.

It would not be a best practice to turn over responsibility for audits to individual departments. Asking a department to classify a position in their department would by design exclude comparing that work to similar work being performed in other parts of the city. This would lead to a violation of the charter mandate to provide like pay for like work. It is certainly helpful to have subject matter knowledge of each department. This is the reason why we have assigned analysts to each major department. Finally, as an independent agency, CSA is an ideal position to manage this process for the city.

If an organization is committed to the policy of maintaining internal equity, best human resources practices reflect that the most effective method in ensuring that this occurs is through a credible job evaluation process. The
classification work performed by CSA is a form of job evaluation. The basis for our model is an assessment of the job duties being performed by the employee. Restructuring caused by budget realities or a re-organization desired by new leadership often results in new duties being assigned. Classification allows us to favorably react to those changes in a way that ensures equity across the city.

In 2005, the Job Evaluation Methods Review Committee which was composed of representatives from throughout the city and human resources professionals from other employers conducted an in-depth assessment of the classification process. The committee’s findings included several recommendations that have been adopted by the team including:

- Standardized, documented process which is defined in the team’s Classification manual and is consistently implemented across the team.
- A peer review process which has been in operation since 2006.
- Ongoing surveys of client satisfaction which were designed and implemented in 2007.

Implementation of these recommendations along with an increase in client satisfaction with these audits led the International Personnel Managers Association’s (IPMA) Western region to recognize CSA’s Classification team with its award for excellence in April, 2009.

A comprehensive study was conducted in 2004 and the current model was recognized by IMPA as best practice in 2009. In short, no study is necessary.

RECOMMENDATION 3.2: If the CSA Board determines that classification audits should continue, the CSA Board should evaluate methods for increasing the efficiency of the process including an assessment of whether current documentation required for completing classification audits are necessary and add value to the process.
**RESPONSE/ACTION PLAN:** The audit takes issue with compliance of the first step of the audit process as specified in section 4 of the classification manual. Employees are asked to provide a copy of an organization chart and secure the approval of the appointing authority on the request form. Since most employees do not have direct access to department organization charts this is a request and not a requirement. The analyst is able to ascertain the details of the incumbent’s organization through the required interview with the incumbent and the supervisor. Analysts frequently retain copies of the organization charts they do receive in their department files and do not place them in the audit file. In addition, appointing authorities can delegate responsibility for approving audit to other managers in their organizations. Since we are working with our clients on a daily basis, we have a good sense for how the process works with our clients and, at times, are flexible about the approval process. Appointing authorities are advised of each audit’s results so there is a check at the end of the process as well.

The Classification Manual now requires that a current PEP and organization chart be provided by the client prior to the start of an audit. To enhance customer service and speed up the process, the Classification team will make this current practice optional in future audits.

In addition, the CSA Board is always interested in continually improving the process utilized by staff to deliver services. To that end the Classification team will revise its service delivery model to reduce the amount of time spent completing audits no later than 31 December 2011. We will then conduct a 6 month pilot and determine if it is successful using the client survey feedback and other client/supervisory feedback as a guide to determine if the changes should be permanent.
RECOMMENDATION 3.3: The CSA Board should ensure that administrative access rights to the classification database only be granted to personnel not directly responsible for audit data and results.

<table>
<thead>
<tr>
<th>State your agreement or reason for disagreement with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of primary individual responsible for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>30 November 2011</td>
<td>Melissa Fisher 720-913-5663</td>
</tr>
</tbody>
</table>

RESPONSE/ACTION PLAN: For a period of 8 – 15 days per year when the HR Technician responsible for administering the audit database is out, there is an assigned backup who is currently involved in conducting audits. The percent of time this individual spends on classification work is nominal so there is little or no motivation to “falsify” the database. Actual audit reports for this individual are validated by a supervisor as part of the mid-year and annual performance review process which minimizes the ability of this staff member to change data in the system.

However, the compensation team is in the process of hiring a new staff human resources professional who will be assigned the back-up role for entering data into the audit management system. This eliminates the possibility of any conflict of interest.

Please contact Bruce Backer at 720-913-5643 with any questions.

Sincerely,

/s Christopher M.A. Lujan
Christopher M. A. Lujan
Interim Executive Director

cc: Patti Klinge, Co-Chair, Career Service Board Member (Via e-mail)
    Colleen Rea, Esq. Co-Chair, Career Service Board Member (Via e-mail)
    Ms. Nita Mosby Henry, PhD, Career Service Board Member (Via e-mail)
    Ms. Michelle Lucero, Esq., Career Service Board Member (Via e-mail)
    Ms. Amy Mueller, Career Service Board Member (Via e-mail)
    Ms. Linda Davison, Assistant City Attorney (Via e-mail)