



MANAGEMENT LETTER

DATE: January 25, 2017

TO: Metropolitan King County Councilmembers

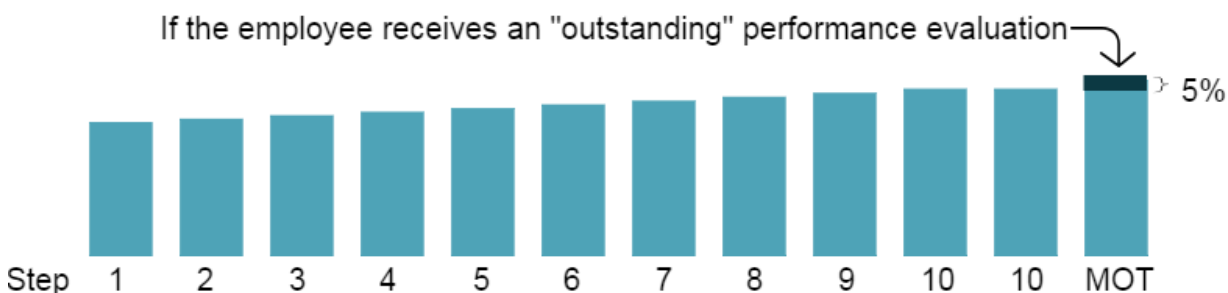
FROM: KyMBER WALTMUNSON, County Auditor

SUBJECT: Changes Necessary for the Merit Over the Top Program

King County spends about \$7 million a year on a program to retain and incentivize senior county employees. King County has a relatively experienced and senior work force. Retaining and motivating these employees is important for performing county functions. Merit Over the Top (MOT) is one program King County uses to achieve this task. However, it is unclear that the County needs to pay potentially above the market rate by providing MOT in order to retain senior employees, especially given its inconsistent application among bargaining groups and departments. Changing this program will be very difficult given the need to bargain any changes, thus the most effective approach would be for the County to address the issues we raise around MOT in this letter as part of a broader effort to address human resources challenges. While we are not making specific recommendations in this letter, it is essential that the County develop an effective program given the importance of retaining and motivating senior employees.

Merit Over the Top allows some employees to earn a salary above the top pay step in their salary range. Under King County Code and collective bargaining agreements some county employees at the top pay step (typically step 10) are, at the discretion of their department leadership, able to earn up to an additional five percent above the top step. In order to qualify, employees must have earned an outstanding (highest) performance rating and be at the top step for two or more years. Exhibit A, below, shows the typical 10 step progression with MOT.

Exhibit A: Employees can receive an additional five percent above the top step.

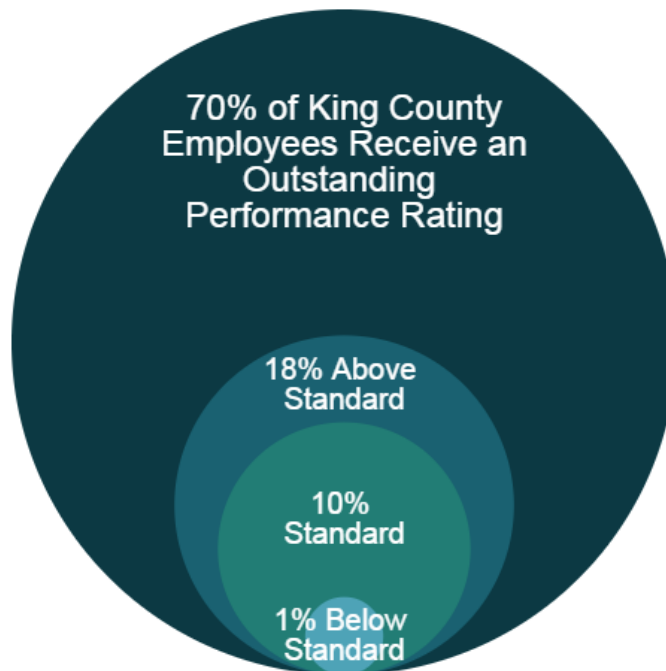


Source: King County Auditor's Office summary of King County's step system.

Human Resources Division staff said that supervisors feel pressure to give employees the ratings needed to receive merit increases. This is particularly true for employees already receiving MOT, who will have their pay reduced if their supervisor does not give them an outstanding performance rating. We found that 97 percent of employees who received MOT in 2013 also received it in 2014.

Seventy percent of the employees who received performance evaluations submitted to the Human Resources Division received an outstanding rating. The Human Resources Division received information on about 3,100 employee evaluations during 2015, with about 70 percent (about 2,200) of the employees receiving an outstanding (highest) rating, shown in Exhibit B, below. Because of county policy and bargaining agreements, about 50 percent (about 6,500) of the county's 13,300 employees receive pay increases based on time served instead of formal performance evaluations.

Exhibit B: Most employee performance evaluations submitted to the Human Resources Division received an outstanding rating.



Source: King County Auditor's Office analysis of assessment data. Does not sum to 100 percent due to rounding.

Providing outstanding performance reviews to 70 percent of eligible employees undermines the purpose and efficacy of MOT. King County policy-makers intended to motivate and retain senior employees by providing a five percent bonus to those who have reached the top step. However, this incentive is minimized when the majority of eligible employees receive an outstanding performance review (the primary requirement to earn and re-earn MOT). This issue is reiterated by our finding that 97 percent of employees who earned MOT in 2013 re-earned it in 2014. This very high percentage of employees who re-earn MOT could indicate that the performance appraisal process is largely pro forma, and that supervisors are unlikely to rate their employees anything less than outstanding, as doing so would cause them to lose five percent of their salary. This is a concern that was brought up to us during

many of our conversations with merit coordinators in various departments. There are a number of problems created by failing to provide accurate and consistent performance appraisals. Potential problems with overrating employees include: not having an honest discussion about employee performance, potentially de-motivating for the true outstanding performers, and potential problems disciplining employees who have received higher performance ratings than their performance merits.

Salary schedules for represented employees are determined by the market, so paying an additional five percent for MOT could mean that King County is paying above market rates. The Human Resources Division and Office of Labor Relations staff indicate that market analyses conducted during the collective bargaining process are intended to set county pay ranges in accordance to the market for comparable jobs. Therefore, paying an additional five percent above the top step can mean that the County is paying more than the market to those who are earning MOT. There is at least one instance, however, in which the county was able to successfully argue in an interest arbitration proceeding that the top of the county's pay range is at the level including MOT, because most employees in the bargaining unit were receiving MOT. Thus, in this instance at least, paying MOT does not mean that the County is paying above market rates.

King County has a higher proportion of employees receiving the highest rating on their evaluations than the federal government. We compared the results of King County's performance appraisals with the federal government to put our results into context. While this is not a perfect comparison, given the size and complexity of the federal government, this comparison, shown in Exhibit C below, illustrates that King County rates a much higher percentage of its employees at the highest performance level compared to the federal government.

Exhibit C: King County has a high proportion of employees receiving the top rating.

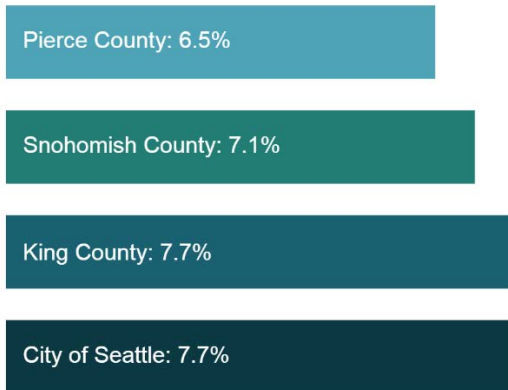
Organization	% Receiving Highest Rating
Federal Government (2013)	42%
King County (2015)	70%

Source: King County Auditor's Office analysis of assessment data and U.S. Government Accountability Office report for federal government.

In addition to providing an incentive, MOT is intended to help retain senior staff; however, King County's turnover rate is largely consistent with other local jurisdictions that do not have a similar program. King County has a relatively experienced workforce, with many employees having long tenures with the county, and thus, at the top of their pay grades. This level of seniority is valuable and important for King County to accomplish its many missions; however, it raises the concern that without the ability to earn additional salary by moving up a pay step, these employees may be less likely to stay with King County. MOT provides a means to recognize and reward employees after they have reached their terminal step and, therefore, is a way to mitigate this challenge. However, in our analysis

we found that King County's turnover rate is consistent with that of other local jurisdictions, see Exhibit D below.

Exhibit D: King County's turnover rate is consistent with local average.



Source: King County Auditor's Office analysis of turnover data from other local jurisdictions.

Other local jurisdictions (identified in Exhibit D) do not have a program similar to MOT that allows staff to earn a salary greater than the top step; however, they all have comparable or even lower turnover rates.

The Human Resources Division is aware of many of the issues we identified about MOT, and making changes will be challenging. There are a number of steps that King County could take to address the issues we identified with MOT; however, many, if not all, of these steps would need to be bargained with King County's union partners complicating and increasing the cost of change. Unlike in many other areas where there are clear leading practices, compensation policy, particularly in the public sector, lacks widely agreed upon practices, making it difficult to determine the best way forward for MOT.

Larry Brubaker, Senior Principal Management Auditor, and Tom Wood, Management Auditor, conducted this review. Ben Thompson, Deputy Auditor, was the project supervisor. Please contact Larry at 477-1034, or Ben at 477-1035 if you have any questions about the issues discussed in this letter.

Attachment: Statement of Compliance, Scope, Objective, & Methodology

- cc: Dow Constantine, King County Executive
Fred Jarrett, Deputy County Executive
Rhonda Berry, Assistant Deputy County Executive
Dwight Dively, Director, Office of Performance, Strategy and Budget
Ken Guy, Director, Department of Executive Services (DES), Finance & Business Operations Division (FBOD)
Eunjoo Greenhouse, Deputy Director, DES, FBOD
Chrissy Russillo, Interim Director, Human Resources Department
Melani Pedroza, Acting Clerk of the Council
Shelley Harrison, Administrative Staff Assistant, King County Executive Office

Statement of Compliance, Scope, Objective & Methodology

Statement of Compliance with Government Auditing Standards

We conducted this performance audit 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 Human Resources Division generally agreed with our findings and declined to provide formal comments for inclusion in this report.

Audit Scope & Objectives

This performance audit evaluated how Merit Over the Top is administered in King County. We compared this program to leading practices around employee compensation in the public sector.

Methodology

To address the audit objective, we researched professional literature on employee compensation and interviewed several experts in this field to identify leading practices. We interviewed county personnel across many different divisions and departments to find out how Merit Over the Top was administered. We reviewed compensation and evaluation data for King County employees to determine the extent to which Merit Over the Top was used as an incentive.

Scope of Work on Internal Controls

We assessed internal controls relevant to the audit objectives. This included review of relevant sections of the King County Code and contracts. To gain a further understanding of this program, we also conducted interviews with service delivery managers in various divisions and departments.