

3. Findings and Recommendations

This section provides a summary of the strengths of the human resources management system in South Carolina as well as background, findings, and recommendations pertaining to various aspects of human resources management. The findings and recommendations are grouped by human resource management function:

- Overall structure
- Classification and compensation
- Employee and employer relations
- Recruitment and selection
- Training and development
- Benefits

During interviews, agency human resources managers and agency directors expressed high levels of satisfaction with the progressive nature of South Carolina's human resource system.

The human resources system's strengths include:

- Pro-active reforms clearly in line with "best practices:"
 - Streamlining the classification and compensation system
 - Creating broad banded pay ranges to allow proportional pay increases based on performance and available resources
 - Improving the state employee grievance process to resolve employee disputes in a timely and cost efficient manner
 - Providing customization options in the employee performance management system
 - Re-engineering the State Career Center
- A delegation program offering agencies the flexibility to conduct various human resource functions at the agency level that simultaneously maintains a strong central human resource management office

- The Office of Human Resources' commitment to form partnerships with state agencies helps achieve its human resource management goals
- An Advisory Council that promulgates human resources management "best practices"
- Benefits offerings that are generally competitive with the marketplace

Organization Structure of the Office of Human Resources

Currently, there are approximately 63 staff in Office of Human Resources (OHR). OHR is organized into five functional sections:

- Administration (Executive Offices)
- Compensation (includes Classification)
- Employee Relations
- State Career Center (formerly the State Job Information Center)
- Center for Education, Quality, and Assessment

The primary goal of the OHR is to "work as consultants and partners with agencies to assist them to attain their own optimal levels of performance from their human resource functions." The office recently undertook a three-year planning strategy session that resulted in the development of the following strategies:

- To provide a strong human resource system for state government agencies
- To provide support services that allow agencies to achieve their missions

Each year, new objectives will be outlined to support OHR's strategies. It is the intent of the Director of the Office of Human Resources to communicate OHR's strategies to each agency director.

Finding: ***The Office of Human Resources conducts annual planning sessions for outlining annual objectives.***

OHR involves all functions of the Office in an annual planning session. The goal of the session is to develop annual objectives that reinforce OHR's long-term goals and strategies. Objectives are communicated to agency human resources managers and agency directors.

Recommendation: Continue to conduct planning sessions that include representatives from the Division of Retirement Systems and the Office of Insurance Services.

The Office of Human Resources should continue to conduct the long-term planning sessions. Conducting a long-term planning session with representatives from each human resource function is an excellent process for aligning the human resource functions towards a common goal. Outlining objectives on an annual basis will reinforce OHR's long-term goals and allow them to become a visible and integral part of the human resources process for OHR employees. Established objectives can improve employee performance, productivity, and overall human resources strategy implementation. Communicating the objectives to agency staff and directors offers agencies the opportunity to align their own overall strategic plans with human resources objectives.

Including the Division of Retirement Systems and the Office of Insurance Services line management in OHR's planning sessions is essential to achieving an integrated human resources strategic plan to present to state agencies. The majority of the agencies interviewed and surveyed have one office responsible for all human resources functions, including benefits. Including all state central offices in a planning session will allow the Budget and Control Board to develop and present unified human resources objectives to the agencies.

Finding: *Each function within the Office of Human Resources has written initiatives that support its mission and goals.*

The Office of Human Resources' divisions develop written initiatives which support the attainment of their mission and goals.

Recommendation: Develop measurable objectives based on the written initiatives.

The Office of Human Resources' practice of setting initiatives is forward thinking and essential for an effective human resources function.

The Office should expand the process by encouraging OHR staff to develop individual measurable goals and objectives that support the achievement of OHR's written initiatives. The measurable objectives established by individual team members should be limited to those that the employee can have direct influence on the achievement of the determined goal. Performance-based salary increases and/or an annual incentive plan should serve as rewards to employees meeting established objectives. Incentives can encourage human resources employees, individually and collectively, to focus attention on the Office's goals and increase awareness of its mission and strategies.

Finding: *The ratio of employees supporting the human resource function in South Carolina state government is in line with peer states' ratios.*

South Carolina supports a central personnel management system with a streamlined staff. The state's success in supporting an effective system is attributable to effective personnel, personnel policies, practices, and procedures.

OHR staff and agency officials did not indicate a concern about the human resources staffing levels during interviews.

The table below provides a summary of the distribution of personnel responsibilities among South Carolina's peers. The percentages indicate the proportion of personnel functions, as identified by the National Association of State Personnel Executives (NASPE), performed by a primary agency. NASPE identified four primary agencies, or structures that perform personnel functions. These agencies or structures are the central personnel office (CPO); decentralized agency, where performance of personnel functions occurs at a line agency; shared responsibility, where the CPO and a line agency play a role in a personnel function; and other agency, where the performance of the personnel function falls to agency completely unattached to the central personnel office.

The information in the table indicates that South Carolina's human resource functions are largely decentralized compared to its peers.

**Exhibit 3-1
Primary Agency Responsible for Personnel Functions**

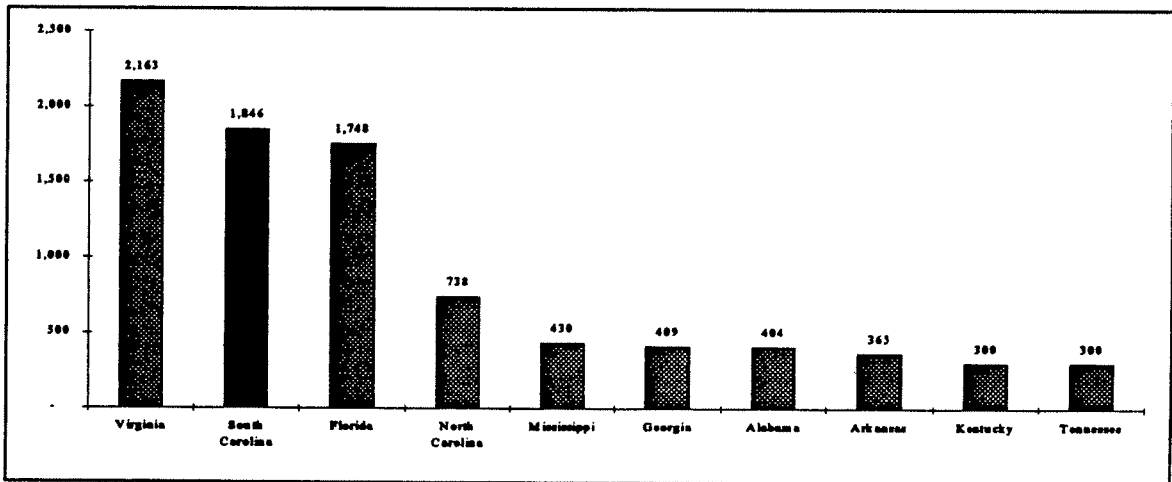
	CPO	Decentralized Agency	Shared Responsibility	Other Agency
Tennessee	43.33%	3.33%	26.67%	26.67%
Arkansas	41.94%	35.48%	22.58%	0.00%
Kentucky	40.74%	3.70%	51.85%	3.70%
Alabama	30.77%	34.62%	15.38%	19.23%
Mississippi	26.67%	20.00%	40.00%	13.33%
South Carolina	22.58%	41.94%	35.48%	0.00%
Florida	20.00%	50.00%	26.67%	3.33%
Georgia	18.75%	21.88%	50.00%	9.38%
North Carolina	14.81%	33.33%	51.85%	0.00%
Virginia	4.00%	4.00%	92.00%	0.00%

Source: National Association of State Personnel Executives' report, *State Personnel Office: Roles and Functions*, 1996.

The following chart shows South Carolina's ratio of centralized personnel staff to employees of agencies served. Among its peers, South Carolina ranks only behind Virginia. The chart indicates that 1,846 South Carolina agency employees receive support

from one centralized personnel staff member. A larger number indicates that the level of central personnel staff needed to provide human resources support is smaller and indicates a more streamlined and efficient operation.

Exhibit 3-2
Ratio of Total Employees Served to Centralized Human Resources FTEs
(South Carolina vs. Peers)

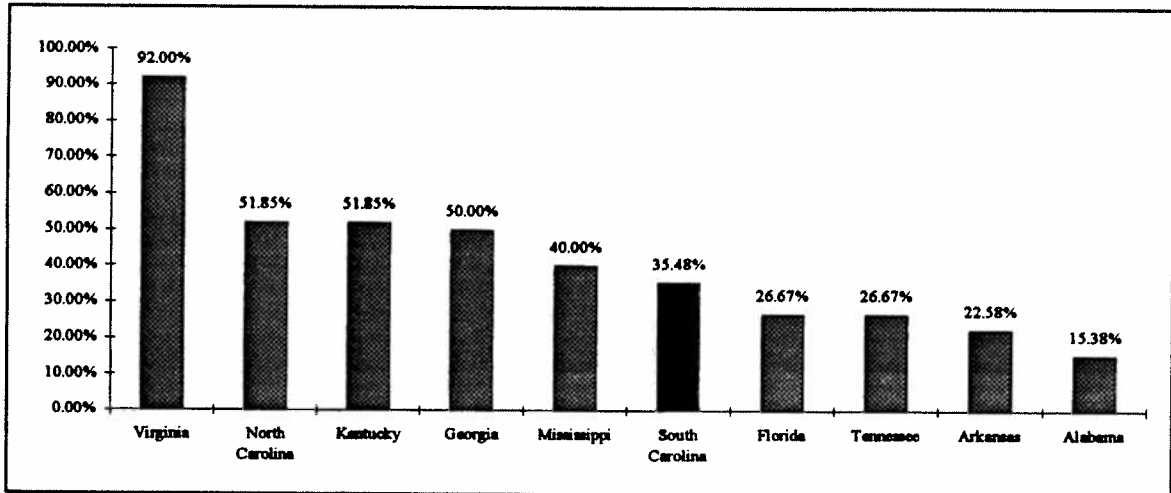


* South Carolina information excludes Office of Human Resources internal administration and support staff.

Source: Created from information provided by the National Association of State Personnel Executives' report, *State Personnel Offices: Roles and Functions*, 1996.

Interestingly, Virginia has a vastly different human resource structure compared to South Carolina. According to a National Association of State Personnel Executives report, 92% of Virginia's personnel functions are performed as a shared responsibility of the central personnel agency and another agency. Exhibit 3-3 provides a summary of the percentage of personnel functions performed under a shared responsibility arrangement between South Carolina and its peers.

Exhibit 3-3
Percentage of Personnel Functions Performed by Multiple Agencies
(South Carolina vs. Peers)

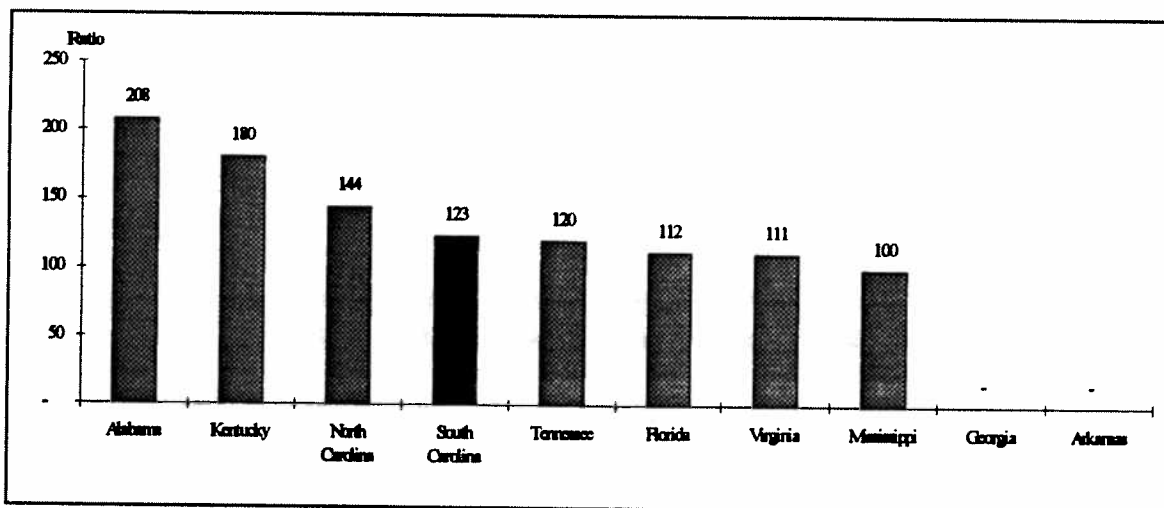


Source: Created from information provided by the National Association of State Personnel Executives' report, State Personnel Offices: Roles and Functions, 1996.

The chart indicates that over 35% of South Carolina's personnel functions are shared between agencies. The utilization of a shared responsibility structure enables more efficient and productive performance.

As the chart below demonstrates, South Carolina's ratio of total human resources staff (including those at the agency level) supporting employees statewide is competitive with its peers' ratios.

Exhibit 3-4
Ratio of Total Employees Served to State Human Resources FTEs
(South Carolina vs. Peers)



Source: National Association of State Personnel Executives' report, *State Personnel Office: Roles and Functions*, 1996.

Note: Information for Georgia and Arkansas not available.

South Carolina's average of 123 employees served by one human resources FTE is above an average ratio that includes private sector data. For companies in the Southeast, the reported median ratio is 93 the average is 116. The basis for the median and average figures are results of a survey of 178 companies conducted by The Institute of Management Report and published in the July 1997 *Human Resource Department Management Report* newsletter.

Overall, the state demonstrates the ability to balance an effective human resource system with maintaining appropriate human resource staffing levels.

Finding: *There is a perceived lack of agency line experience in the Office of Human Resources.*

During interviews, agency officials indicated that they believed OHR staff did not understand agency-level human resources management issues. Although many of the agencies' staff are sources of policy information and human resources policy experts, the officials expressed concern that the OHR staff's lack of agency experience may limit their ability to provide service delivery advice at the agency level.

Agency human resources managers and agency directors indicated the OHR staff often did not understand the environment of working at the agency level because many of the OHR staff have not worked at the agency level. The perceived "lack of understanding" may create situations that inhibit the delivery of high quality services. OHR is making significant progress in staffing OHR with individuals possessing agency experience. Several of OHR's recent hires are veterans of an agency's human resources office.

Recommendation: Establish an exchange program for Office of Human Resources consultants and agency human resources staff.

Encouraging OHR and agency employees to work for a limited time at the OHR or agency level will allow OHR and state agency staff to experience the daily requirements and demands present in both environments. This “cross-training” should consist of rotational assignments every four to five years. An exchange program will create a more cooperative and effective working relationship between agency-level human resources staff and the OHR staff.

Finding: *There is no clear central point of contact for state employees to receive answers to human resources management questions.*

OHR staff that indicated employees may be unclear on where to direct inquiries concerning human resource, benefits, retirement, and payroll. State employees primarily rely on their agency’s human resources office to address personnel and benefits questions. Situations can develop where the human resources office is unable to provide the appropriate answers or employees desire an independent answer to their question.

Recommendation: Designate a primary information (contact) number that allows employees to direct human resources questions.

Due to the possibility that many employee questions will concern similar issues, the establishment of a central information number would facilitate communication and ensure questions are addressed in a timely and informative manner. The Budget and Control Board should be responsible for establishing this central contact point. A primary information number would reduce the amount of effort spent locating an answer-source and ensure that employees receive assistance from an appropriate employee and/or function in a timely manner.

Employees are less concerned with the actual location or personnel responsible for the performance of human resources functions than the solution to their problem. Instead, employees desire expedient and useful information to their questions. Human resources, benefits, retirement, and payroll are all functions in employee management. The creation of a central information number will facilitate improved knowledge, understanding, and efficiency in these functions.

Classification and Compensation

A job classification and compensation system is a key component of human resources management and affects virtually every aspect of personnel administration. In classification systems, jobs are grouped together based on a series of requirements that include responsibility, decision making authority, supervision, and qualifications.

An ideal classification system incorporates enough classes to identify differences among jobs, but limits the number of classifications to prevent the rendering of similar class distinctions meaningless.

A classification and compensation system that supports effective human resources management is one that:

- Supports career progression
- Encourages salary decisions to be made based on performance
- Undergoes a periodic review of the job classification and compensation system
- Offers flexibility at the agency level
- Offers salary structure that has a wide spread between the minimum and maximum salary in a band
- Offers a salary structure with few bands
- Uses the results of comparisons of its compensation structure to market rates to make compensation adjustments
- Encourages development of compensation plans and strategies
- Has a high ratio of employees to classes

Classification and Compensation in South Carolina

The Compensation Division of OHR manages the performance-based classification and compensation program. As of June 30, 1997, the program supported 61,024 classified employees and 9,202 unclassified employees. Section 2 of this report, **Human Resources in South Carolina**, details the program's staffing levels and distribution of responsibilities between the program and the agencies. The management of the state's human resource information system also falls under the Compensation program of OHR.

Currently the state uses four different compensation systems:

- **Classified Workforce:** South Carolina's current compensation system uses ten salary bands. Each band utilizes five pay grades from a preexisting schedule.

The average compensation of the competitive market serves as the basis for the midpoints of each salary band. OHR participates in a Southeast Conference salary study each year and is privy to the results of this study.

- **Non-classified Workforce:** 00 band. Positions do not have salary ranges and individual pay rates are established by the agencies..
- **Executive Compensation System:** Based on an individual point system (leveraged off of the Hay system) that uses point totals to determine the salary range. This is an internally valued system (agencies or governing boards conduct review to determine points) and involves a desk audit.
- **Agency Head System:** The Agency Head Salary Commission and the Budget and Control Board have the responsibility for determining pay for chief executives in state government. Based on a point-factor job analysis system (same as the Executive Compensation System), the Agency Head Salary Commission establishes the salary ranges for the agency head positions. In addition, as required by law, a comprehensive salary study must be conducted every three years. The Agency Head Salary Commission also establishes the pay policies, and with the approval of the Budget and Control Board, determines the annual salary increases for agency heads.

Salary increases are based on one or more of the following:

- General increase (same as salary structure increase)
- Performance-based-pay increase (allowed to all agencies): Individual increase based on performance; promotional increase (can be within the same salary range); one time bonus based on savings to an agency (funded on carried forward dollars according to efficiency); legislated performance pay increase
- Transfer increase
- Grade reallocation (increases due to changes in the band assignment for an entire job class due to changes in market conditions)
- Special salary adjustment (increases approved by the State Human Resources Director in exceptional circumstances)
- Merit based pay increase: in some years the General Assembly funds merit-based pay increases
- Additional skills/knowledge, duties and/or responsibilities
- Retention increase

In the classified system, in-band salary increases may occur for the following reasons:

- Legislated performance pay increase
- Performance increase
- Additional skills and knowledge increase. Approval can occur at the agency level for increases up to 10%.
- Additional job duties and/or responsibilities. Approval can occur at the agency level for increases up to 10%.
- Transfer increase - up to 10%
- Retention increase - up to 10%

In the classified system, salary increases resulting from upward band changes may occur for the following reasons:

- Promotional increase. Approval can occur at the agency level for increases up to 10%.
- Reclassification increase. Approval can occur at the agency level for increases up to 10%.
- Reallocation increase

Significant compensation and classification program reform initiatives included reducing:

- 2,500 job titles to 442, exceeding OHR's initial goal of 800 in the new system
- 50 salary ranges to 10 broad pay bands

These reforms became effective in July 1996.

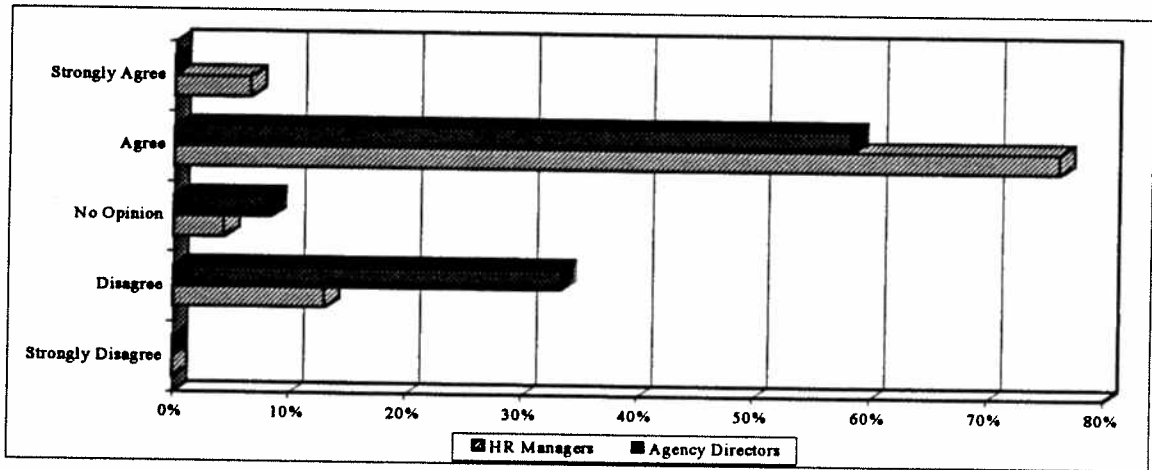
OHR trained all agency human resources directors on the new system. According to KPMG survey results, 88% of the human resources managers and 75% of the agency directors responding agreed the state's supervisors and managers received adequate training on how the classification and compensation system works.

The new classification and compensation system appears to meet its guiding principles of simplification, increased flexibility at the agency level, and no negative impact on employees' salary or earning potential. The program allows agencies flexibility within clear guidelines to maintain statewide internal equity. It also allows consistency among pay practices and the goal is to be budget neutral.

Finding: *The state agencies believe the new classification and compensation system is easy to understand.*

Overall, state agencies appeared satisfied with the new classification and compensation system. As shown in the chart below, approximately 85% of the human resources managers indicated the classification system was easy to understand. In contrast, over 30% of the agency directors expressed a belief that the new classification system is difficult to understand. This difference could be attributable to the human resources managers possessing a greater level of experience and exposure to the system than the agency directors.

Exhibit 3-5
The Classification System is Easy to Understand



Source: Based on information provided by human resources managers and agency directors.

Finding: *The state's classification system has a high ratio of employees per classification which is efficient.*

The state has been successful in streamlining its classification system. Exhibit 3-6 on the following page shows that South Carolina has the highest ratio of employees served per job classification nationwide.

**Exhibit 3-6
Number of Class and Employees Served**

State	Number of Classes	Employees Served	Ratio of Employees per Class
South Carolina *	442	61,024	138
Texas	1,148	133,733	116
Illinois	1,039	63,853	61
California	4,500	196,000	44
Kansas	762	32,000	42
Georgia	1,500	62,928	42
Oregon	815	33,000	40
Florida	3,100	122,343	39
Virginia	1,800	70,000	39
Michigan	1,691	63,148	37
Ohio	2,000	65,000	33
New York	5,950	185,597	31
Washington	1,750	52,200	30
Colorado	951	28,200	30
West Virginia	750	20,000	27
Maryland	2,389	61,033	26
Indiana	1,501	38,000	25
Missouri	1,307	33,077	25
North Carolina	3,500	87,705	25
Tennessee	1,680	41,653	25
Kentucky	1,700	40,655	24
Alabama	1,481	32,258	22
Oklahoma	1,407	28,467	20
Minnesota	2,269	40,000	18
Hawaii	1,719	28,412	17
New Mexico	1,200	19,000	16
Wisconsin	2,800	40,971	15
Connecticut	4,060	53,000	13
Alaska	1,000	12,835	13
New Jersey	6,169	78,095	13
Arkansas	1,854	22,799	12
Mississippi	2,500	29,000	12
Nevada	1,300	14,804	11
North Dakota	980	10,150	10
Montana	1,350	12,500	9
Nebraska	1,460	13,500	9
Delaware	1,300	11,782	9
New Hampshire	1,251	9,957	8
Utah	2,200	16,660	8
Idaho	1,633	11,660	7
Vermont	1,300	7,000	5
Maine	1,300	N/A	N/A
Rhode Island	1,500	N/A	N/A
Iowa	851	N/A	N/A
Arizona	N/A	N/A	N/A
Louisiana	N/A	66,819	N/A
Massachusetts	N/A	N/A	N/A
Pennsylvania	N/A	N/A	N/A
South Dakota	N/A	N/A	N/A
Wyoming	N/A	N/A	N/A
Total:	83,159	2,050,818	
Average:	1,890	48,829	25

Source: National Association of State Personnel Executives' Report *State Personal Office: Roles and Functions*, 1996.

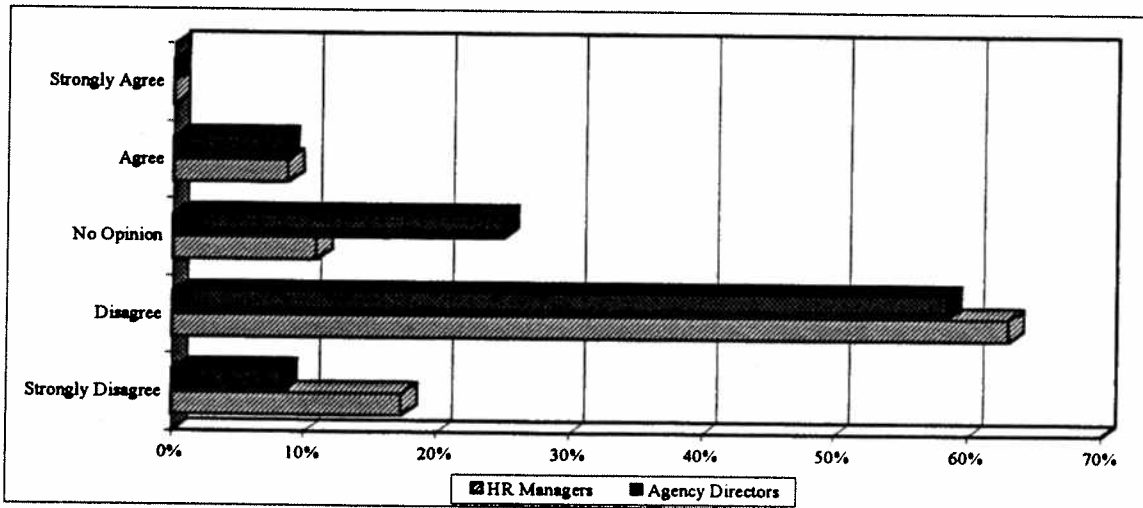
* Information provided by the South Carolina Office of Human Resources

Finding: *The state has an appropriate number of job classifications.*

The new streamlined classification and compensation system supports the agencies' human resources management systems and provides an appropriate number of job classifications.

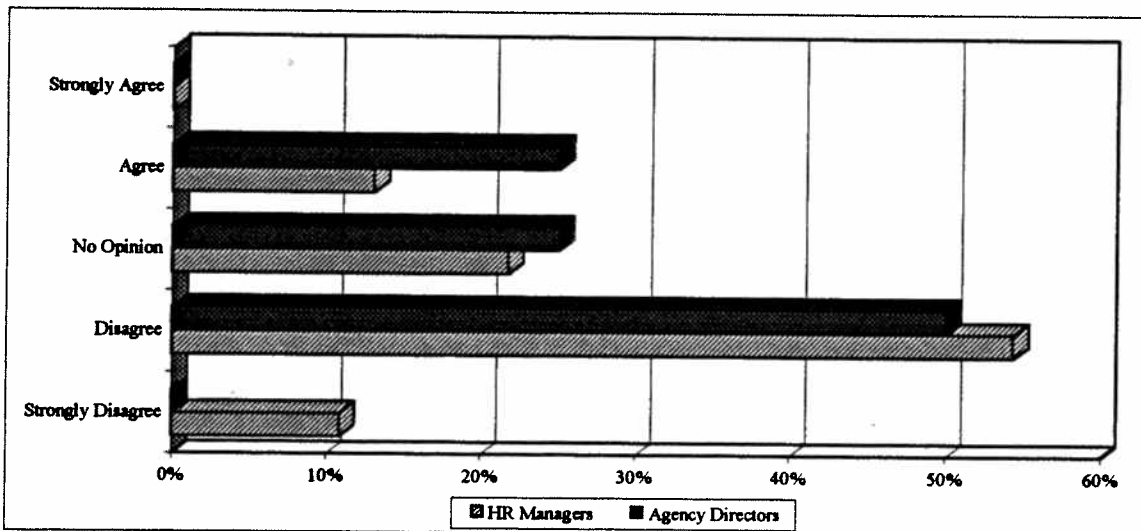
Survey results show that the majority of agency human resources managers and agency directors believe an adequate number of job classifications currently exists.

Exhibit 3-7
Too Many Job Classifications Currently Exist



Source: Based on information provided by human resources managers and agency directors.

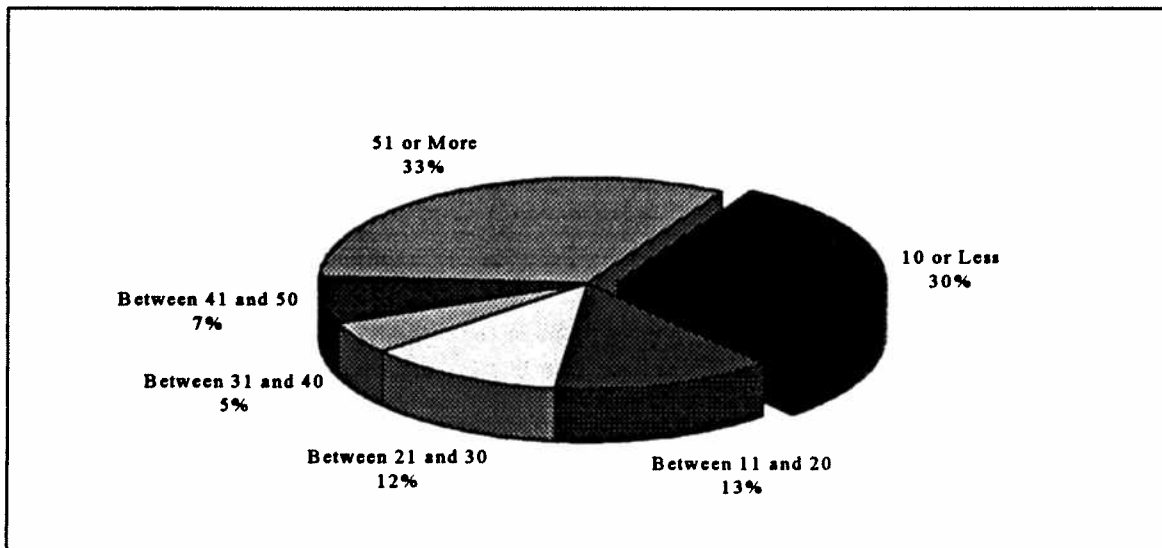
Exhibit 3-8
Too Few Job Classifications Currently Exist



Source: Based on information provided by human resources managers and agency directors.

Exhibit 3-9 shows that approximately 30% of South Carolina's job classifications have ten or fewer incumbents, including approximately 1% with zero incumbents. This percentage is low compared to other states' distribution of employees per job classification. KPMG previously performed an analysis of Mississippi's and Louisiana's personnel system and discovered that at the time of those studies, approximately 55% of Mississippi's job classifications possessed fewer than ten incumbents, and Louisiana had approximately 78% of job classifications with fewer than ten incumbents. South Carolina's figure of 30% indicates an efficient and streamlined operation.

Exhibit 3-9
Percentage of Job Classifications Containing X Number of Employees



Source: Based on information provided by the Office of Human Resources.

Additionally, only 19% of the job classifications are used by fewer than five agencies. The low percentage indicates the system does not encourage agency-specific jobs that would create a more complex system.

Recommendation: Continue to monitor the number of employees per job classification on a regular basis.

In a classification system, concerns develop if job classifications are too broad because allocation decisions become more difficult. Overly broad classes also reduce the quality of allocation decisions. However, in order to prevent the development of excessive job classifications with zero to ten employees, and the creation of new job classifications simply for promotional purposes, OHR needs to continuously monitor and analyze the classification system annually.

Finding: *Position descriptions have a section for the supervisor to list the knowledge, skills, and abilities required by an entry level employee to complete the essential functions of the position.*

OHR develops job specifications for each position, but each agency develops individual position descriptions.

KPMG received a copy of a position description development form for supervisors. The intent of the form was to gather information to assist managers in writing descriptive and comprehensive position descriptions. The position description form asked supervisors to identify the knowledge, skills, and abilities required by an entry level employee to complete the essential function of the position. The form appeared comprehensive.

Recommendation: **Develop a standard written list of basic skills and abilities to serve as a checklist for the skill requirements. This will ensure documentation of a minimum level of skill requirements.**

In order to streamline the process of position description development and help in the ensuring compliance with the Americans with Disabilities Act, OHR should develop a standard written list of basic skills and abilities and encourage agency use of the checklist. Examples of basic skills and abilities are:

- Ability to see
- Ability to differentiate colors
- Ability to lift objects in excess of a specified number of pounds
- Ability to walk

This would allow supervisors the opportunity to verify these listed skills as essential components needed to perform a particular job.

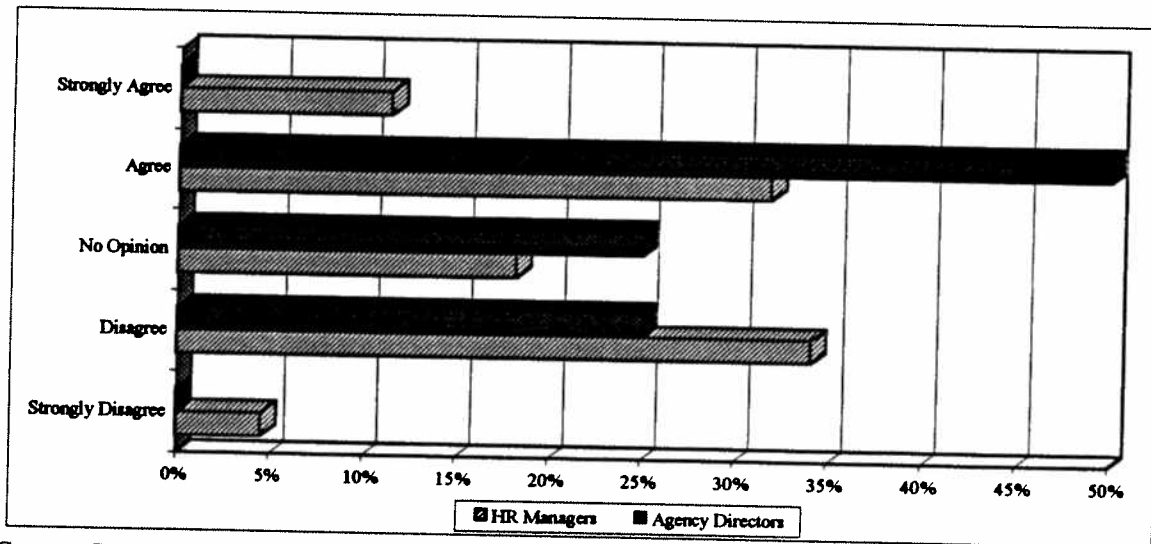
Finding: Comprehensive compensation strategies do not exist in all agencies.

The Office of Human Resources encourages each state agency to develop a formal written compensation strategy. OHR provides a *Compensation Guide* to agencies that outlines the recommended aspects of a compensation plan. OHR should be commended for publishing a handbook detailing the components of a compensation plan that is in line with best practices. OHR's suggested components for an agency's compensation strategy include:

- Compensation philosophy
- Salary structure
- Internal titles and career paths
- Minimum qualifications
- Internal pay policies
- Communication with employees regarding the system

However, several agency officials indicated during interviews that their agency failed to have a compensation strategy. Survey results show almost 40% of the human resources managers and 25% of the agency directors indicated that their agency did not utilize a salary plan recommended by managers. A high percentage of respondents expressed no opinion concerning the utilization of a salary plan. This indicated they did not know the answer or failed to understand the concept of a salary plan. See Exhibit 3-10 below.

Exhibit 3-10
Salary Plan Recommended by Managers in Agency



Source: Based on information provided by human resources managers and agency directors.

Additionally, of the ten state agencies surveyed, only 60% of the respondents indicated that their agency's office of human resources is responsible for completing a comprehensive compensation study package that includes salary surveys, justifications, recommendations, and priorities.

Recommendation: **Require agencies to submit a written compensation strategy that includes a definition of the competitive market and the components of the compensation program.**

OHR should require state agencies to submit a written compensation strategy to OHR. This requirement will ensure agency participation throughout the state. Smaller agencies might need OHR's assistance in development of the strategy.

A formal, communicated strategy is essential because it defines compensation's role within an agency. It also assists in determining the competitive position of the total compensation program, including base pay and incentive pay, if incentives are a part of the compensation plan. A KPMG study discovered that higher performing companies exhibit a greater tendency to utilize a formal compensation strategy.

In addition to the components recommended by OHR, a definition of the competitive market and a description of salary plans that incorporates a formula involving base pay plus incentives should be included. The competitive market could be either local, statewide, regional or national. It is important to define and communicate an agency's competitive position in order to establish benchmarks and target recruitment information.

Finding: *State agencies continue to assign separate pay ranges within a band for positions that differ in scope and responsibility and/or have supervisory responsibilities.*

The Office of Human Resources achieved a significant accomplishment by reducing 2,500 job classifications to 442 job classifications—exceeding their goal of 800 classifications.

However, agencies have the opportunity to create agency-level salary bands, thus creating a “mini” internal classification and compensation structure.

Several agency human resources officials indicated during interviews that they integrated their old system into the new classification structure, citing the need for flexibility and the ability to differentiate between employees within bands as reasons. OHR staff indicated they knew agencies were creating these structures, but believe over time state agencies will adopt the streamlined classification system.

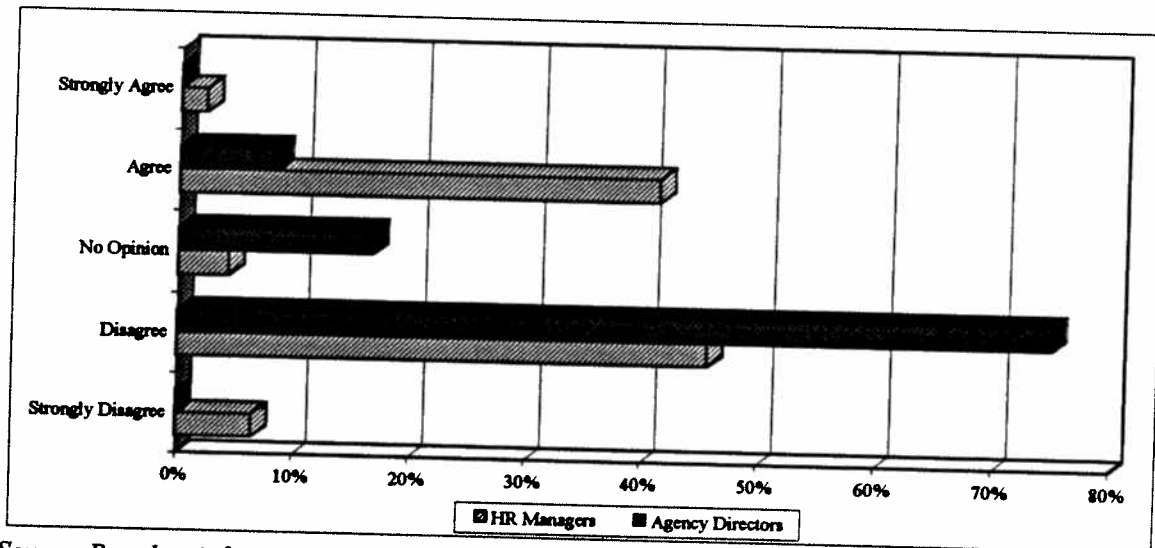
Recommendations: **Encourage agencies to discontinue the practice of assigning pay ranges within the same salary band.**

The Office of Human Resources should work with agency human resources offices to eliminate the practice of developing ranges within a pay band. If a position has a broader scope and responsibility level than other positions within the same band, then the position should be assigned to the next salary band. Assigning separate pay ranges within a single salary band creates additional bands and a complex structure at the agency level. Allowing agencies to create internal ranges within bands may also encourage pay inequities across the state.

Finding: *The majority of agency directors and human resources managers do not believe that their agency's salaries are competitive in the marketplace.*

Responses from the agency human resources manager and agency director surveys demonstrated agency salaries are perceived as not competitive in the marketplace. Over 70% of agency directors and 50% of human resources managers indicated agency salaries are not competitive in the marketplace.

Exhibit 3-11
Agency Salaries are Competitive in the Marketplace



Source: Based on information provided by human resources managers and agency directors.

Based on the 1996 Southeastern States Salary Survey, of those job classifications compared, the majority of South Carolina's job classification pay ranges are competitive.

Even though pay ranges are externally competitive in Southeastern state government, no guarantee exists that the distribution of actual employee salaries is competitive.

Also of concern are survey results indicating that 65% of the human resources managers and 42% of the agency directors believe employees understand the compensation system.

Recommendation: Include more extensive private sector job classifications when making salary comparisons.

Using the average salary paid to state employees for each job classification, OHR and agencies should conduct annual salary comparisons that include private sector salaries *and* the southeastern states' salaries. Using the average salary paid allows the determination of actual pay practices and allows for a more informed and competitive compensation program.

South Carolina state government is competing to attract and retain the highest caliber employees within its local and external economies. Including private sector and other state salaries in their analysis will enable South Carolina to ensure competitive salaries.

Recommendation: Undertake a training campaign on the new classification and compensation system.

The majority of South Carolina's job classification's salaries are competitive in the marketplace. However, employees' perceptions are that their salaries are not competitive. To address these perceptions, it is essential for agencies and OHR to undertake a communication plan at the agency level to help employees understand the classification and compensation system. The course/communication material should be provided by OHR. The communications and training should detail:

- The determination of pay
- The theory of pay for performance
- The determination of job classification

Understanding the classification and compensation system will enable state employees to view the competitiveness of their salaries more favorably.

Finding: Salaries for some hard-to-fill positions appear to be less competitive.

The Office of Human Resources provided us a list of the current hard-to-fill positions in state government. The fifteen job classifications deemed hard-to-fill are as follows:

- Auditor II
- Auditor III
- Accountant/Fiscal Analyst I
- Accountant/Fiscal Analyst I
- Computer Programmer I
- Computer Programmer II
- Application Analyst I
- Application Analyst II
- Information Technology Manager I
- Information Resource Consultant I
- Information Resource Consultant II
- Nurse Practitioner I
- Nurse Practitioner II

- Nurse Administrator/Manager I
- Nurse Administrator/Manager II

As this list indicates, the difficulty in recruiting and retaining is primarily in the fields of information technology, finance, and nurse management. The list provided by OHR coincides with the feedback received during KPMG's interviews. Several of those interviewed expressed concern regarding recruiting, retaining, and competing with the private sector in the areas of information technology and nursing.

As part of our study, KPMG conducted an analysis on the minimum and average salaries of six of the fifteen hard-to-fill positions, six other positions in the information technology, finance, and nursing fields, and six positions outside those job classification areas where agencies have experienced difficulty in recruiting. Minimum salaries were used in the analysis, because typically employees are brought in at the minimum salary level in the pay range, and thus competitiveness at the minimum level is important.

The purpose of the analysis was to determine the competitiveness of state salaries for those positions as compared to other Southeastern state governments. The tool used to determine the state's position is a comparative ratio, or compa-ratio. A compa-ratio is an index, expressed as a percentage, of a job classification's salary compared to market average. A compa-ratio of 90 percent indicates that a position's salary is 10 percent below the competitive market. Conversely, a compa-ratio of 110 percent would indicate that a position is paid 10 percent above the competitive market.

The position's average and minimum salaries were first compared using data from the 1996 Southeastern Salary Review. We then compared the positions using South Carolina's salaries for the positions as of June 30, 1997 and adjusted the Southeastern averages to reflect a 4% increase—based on the assumption that the standard average annual salary increase in state government is typically in the 4% range.

The following tables show a summary of the results.

**Exhibit 3-12
Comparison of Average Salaries**

	Job Title	Approved Positions (1)		96 SE Avg Actual (2)	96 SC Avg Actual (3)	96 Compa-ratio	1997 SC Avg (4)	96 SE Avg + 4% (5)	Compa-ratio '97 SC / SE '96 + 4 %
		Filled	Vacant						
HARD TO FILL (per OHR)	Nurse Admin / Manager II	179	28	\$45,888	\$48,096	107%	\$51,850	\$ 47,721.44	109%
	Auditor III	188	14	\$28,420	\$28,337	90%	\$28,725	\$ 30,688.80	97%
	Accountant / Fiscal Analyst I	278	18	\$27,428	\$24,688	90%	\$25,039	\$ 28,528.12	98%
	Accountant / Fiscal Analyst II	218	20	\$30,187	\$28,748	96%	\$30,257	\$ 31,373.88	98%
	Application Analyst I	88	29	\$41,043	\$28,324	69%	\$28,891	\$ 42,884.72	88%
	Computer Programmer I	52	7	\$28,584	\$23,113	87%	\$22,548	\$ 27,847.38	82%
	Registered Nurse I	1,358	173	\$29,995	\$30,987	103%	\$30,790	\$ 31,194.80	99%
	Registered Nurse II	1,321	126	\$38,831	\$38,638	100%	\$39,134	\$ 40,384.24	97%
	Accountant / Fiscal Analyst III	218	9	\$34,213	\$33,583	98%	\$30,257	\$ 35,881.52	85%
	Accounting / Fiscal Manager I	90	7	\$38,811	\$43,381	118%	\$50,334	\$ 38,283.44	131%
	Fiscal Technician I	974	57	\$20,959	\$20,241	97%	\$19,915	\$ 21,787.36	91%
	Computer Operator II	95	7	\$22,784	\$21,078	93%	\$22,985	\$ 23,874.56	97%
	Systems Programmer II	41	1	\$44,012	\$40,785	93%	\$47,128	\$ 45,772.48	103%
	Electronics Technician I	12	1	\$22,450	\$20,193	90%	\$21,241	\$ 23,348.00	91%
	Human Services Coordinator I	1,568	124	\$37,794	\$34,146	90%	\$35,753	\$ 39,305.76	91%
	Administrative Assistant	2,239	149	\$24,551	\$25,780	105%	\$24,652	\$ 25,533.04	97%
	Probation/Parole Agent	489	21	\$25,187	\$19,619	78%	\$22,769	\$ 26,194.48	87%
	Program Manager I	651	48	\$39,944	\$47,418	119%	\$47,950	\$ 41,541.76	115%
	Public Information Coordinator	122	15	\$24,780	\$27,077	109%	\$28,745	\$ 25,760.40	112%
			10,157	850					
		11,007		Jobs affected					

Sources:

- (1) OHR as of June 30, 1997
- (2) Southeastern Salary Guide 1996
- (3) Southeastern Salary Guide 1996
- (4) OHR June 30, 1997
- (5) KPMG estimated average increase for Southeastern state governments

**Exhibit 3-13
Comparison of Minimum Salaries**

	Job Title	Approved Positions (1)		SE Avg Minimum (2)	SC Minimum (3)	96 Compa-ratio	1997 SC Minimum (5)	96 SE Avg Min + 4% (6)	Compa-ratio '97 SC / SE '96 + 4 %
		Filled	Vacant						
HARD TO FILL	Nurse Admin / Manager II	179	28	\$33,438	\$33,552	100%	\$34,892	\$ 34,773.44	100%
	Auditor III	188	14	\$24,554	\$22,863	82%	\$23,433	\$ 25,538.16	92%
	Accountant / Fiscal Analyst I	278	18	\$21,852	\$18,828	86%	\$19,259	\$ 22,830.08	84%
	Accountant / Fiscal Analyst II	218	20	\$25,353	\$22,883	89%	\$23,433	\$ 26,387.12	89%
	Application Analyst I	88	29	\$31,308	\$22,863	72%	\$23,433	\$ 32,581.38	72%
	Computer Programmer I	52	7	\$22,511	\$18,828	83%	\$19,259	\$ 23,411.44	82%
	Registered Nurse I	1,358	173	\$24,460	\$22,663	93%	\$23,433	\$ 25,438.40	92%
	Registered Nurse II	1,321	126	\$29,062	\$27,577	95%	\$28,514	\$ 30,224.48	94%
	Accountant / Fiscal Analyst III	218	9	\$26,108	\$27,577	106%	\$28,514	\$ 27,152.32	105%
	Accounting / Fiscal Manager I	90	7	\$29,556	\$33,552	114%	\$34,892	\$ 30,738.24	113%
	Fiscal Technician I	974	57	\$16,695	\$15,310	83%	\$15,830	\$ 17,362.80	91%
	Computer Operator II	95	7	\$17,746	\$18,826	106%	\$19,259	\$ 18,455.84	104%
	Systems Programmer II	41	1	\$32,458	\$33,552	103%	\$34,892	\$ 33,756.32	103%
	Electronics Technician I	12	1	\$18,512	\$15,310	83%	\$15,830	\$ 19,252.48	82%
	Human Services Coordinator	1,568	124	\$28,566	\$22,663	79%	\$23,433	\$ 29,708.64	79%
	Probation/Parole Agent	2,239	149	\$21,045	\$18,828	89%	\$19,259	\$ 21,886.80	88%
	Program Manager I	489	21	\$29,345	\$33,552	114%	\$34,892	\$ 30,518.80	114%
	Public Information Coordinator	651	48	\$20,324	\$22,663	112%	\$23,433	\$ 21,136.96	111%
	Administrative Assistant	122	15	\$17,862	\$18,826	104%	\$19,259	\$ 18,576.48	104%
			10,157	850					
		11,007		Jobs affected					

Sources:

- (1) OHR as of June 30, 1997
- (2) Southeastern Salary Guide 1996
- (3) Southeastern Salary Guide 1996
- (5) FY 96-97 OHR Compensation Manual
- (6) KPMG estimated average increase for Southeastern state governments

The analysis found that the hard-to-fill positions' minimum and average salaries averaged 14 percent below the Southeastern state's salaries. The other positions as a whole were more competitive (though some were significantly below market average).

Recommendation: Develop and implement strategic plans to recruit for hard-to-fill positions and to retain those employees already employed by the state in those positions.

OHR and agencies, in collaboration, need to continue to define strategies for recruiting and retaining for these hard-to-fill positions, particularly pertaining to technology positions.

Technical positions are particularly hard to fill because of heavy competition throughout the market, public and private. Rapid growth and change in the technical field has caused salaries to increase at a much higher annual percentage than other fields. *Computerworld's* latest Annual Salary Survey reported that technology-related positions average 10% increases in salaries annually. Since state government increases salaries annually at a consistent percentage without significant differentiation based on position, government technical salaries tend to fall further below market value each year. Additionally, *Computerworld* reported in their Annual Salary Survey that the most difficulty in technology recruitment is experienced in filling lower level positions. The industry is changing at such a rapid rate that demand for employees who have experience with the newer and more rapidly changing technologies is at a premium. Generally, it is the lower level employees who have had the opportunity to work most extensively in these areas.

Agencies need to complete compensation comparisons (using actual salaries paid) for the hard-to-fill positions in order to ascertain their position in the competitive market. Using comparison results, agencies (and OHR, as appropriate) should make adjustments in the hard-to-fill positions' compensation levels if warranted.

Additionally, OHR needs to continue to stay abreast of the competitive environment for these hard-to-fill positions. OHR has to maintain the compensation system and ensure agencies have the latitude to adjust compensation levels in order to remain competitive. OHR will also play a key role in working with agencies to develop recruiting strategies. OHR can develop guidelines and methodologies for agencies' recruiting strategic planning purposes.

Recruitment strategies to be considered include:

- Establishing relationships with local universities to encourage state government employment, particularly in the hard-to-fill job fields. According to *Computerworld*, many organizations are developing "farm teams" to put more emphasis on college recruiting and developing relationships with potential recruits early in their education process.

- Comparing the state's salary and compensation structures for the hard-to-fill positions with those of local private sector firms, and making necessary adjustments

Additionally, in the agencies' hard-to-fill strategy, more emphasis should be placed on retention. OHR can provide to agencies the suggested components and methodologies for a retention strategy. Retention strategies include:

- Providing mentoring opportunities
- Communicating available career paths
- Affording employees in the technology field the opportunity to work on new technology

Agencies should be responsible for implementing the retention strategies outlined by OHR.

Recommendation: Implement a statewide formal employee referral program.

For assistance in recruiting for hard-to-fill positions, the state should look to its current employees. State employees often have opportunities through professional associations, continuing education, and personal gatherings to network with individuals in similar fields of work as themselves. By implementing a statewide formal employee referral program, state employees will be encouraged to refer qualified candidates to state government. OHR, through the State Career Center, could manage this program.

Many private companies have experienced success by linking monetary awards to the referral program. The level of reward can be tied to the type of position an individual is referred for, with higher monetary rewards given for those fields classified as hard-to-fill. The distribution of the monetary recognition should occur only after the referred individual has been retained by state government for six months to one year.

Finding: *The current classified service compensation system does not encourage the use of incentives as an integral part of the compensation strategy.*

Currently the opportunity exists to award employees salary increases for performance and acquisition of additional skills/knowledge. Additionally, agencies have the authority through Statute 8-11-950 to fund bonus payments for exceptional service and there are other bonus programs such as group productivity awards. However, the existing compensation strategy does not encourage agencies to combine the two compensation principles—a base salary accompanied by a variable element—within the classified service.

Recommendation: Develop and pilot test a performance-based incentive plan.

OHR should establish the methodology and guidelines for a performance-based incentive plan. The system can then be pilot tested in a select number of agencies to determine statewide implementation feasibility.

Incentive goals are specific performance objectives that measure continuous improvement that can support an agency's goals and strategy. An advantage of using incentives includes the expansion of an employee's commitment to delivering results while focusing on agency goals.

Instead of awarding salary increases of up to 10%, the state should consider developing a performance-based incentive program, so that the compensation system encourages and rewards employees when agency efficiencies are realized. One alternative could be having performance-based salary increases of up to 6% and an incentive opportunity based on measurable results of up to 4%.

Salaries are relatively fixed costs, suggesting a lower fixed cost may result from the introduction of a performance-based incentive plan. A performance-based incentive plan will ensure that one time performances, contributions, and accomplishing specific goals are adequately rewarded through an incentive plan. Additionally, recognition of performance improvement and personal growth occurs through the performance increases. The plan will also allow opportunities for total compensation increases that are substantial when performance satisfies defined goals.

The incentive portion of the pay program can incorporate varying types of formats:

- **Gainsharing:** Employees share a percentage of productivity and other improvements using a fixed funding formula with smaller, frequent payouts
- **Goalsharing:** A broad group of employees share a significant quarterly or annual bonus based on achieving business-focused, continuous improvement and mutually agreed upon stretch goals
- **Group/Team Incentive:** Any arrangement for a group or team of employees to receive a variable award based on increased performance against a target goal
- **Individual Incentive:** An objective-based incentive applied to individual contributors

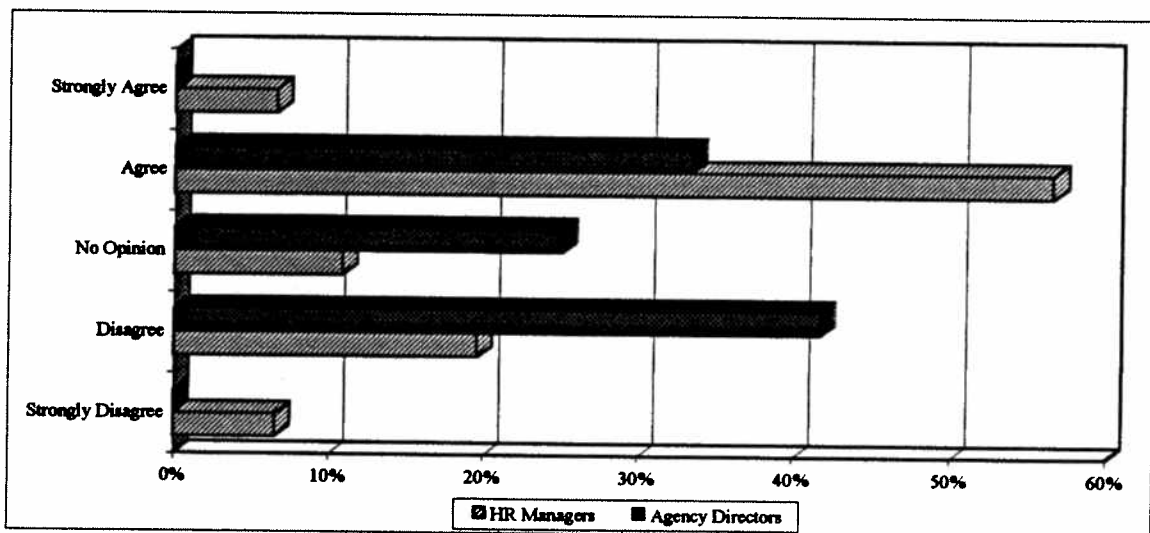
Important activities in the implementation of a pay for performance-based incentive program are to decide on measurable performance variables and determine the appropriate level of detail within the measurement process.

Finding: *The use of monetary incentive programs varies among agencies.*

Inconsistencies exist across the state in the use of incentive award programs. Several agency officials indicated incentive awards were not used because of a lack of funding. According to one agency director, larger agencies can afford incentives programs while the smaller agencies lack the funding to provide their employees with such a program.

Additionally, the agency survey results indicated inconsistency among agencies offering a monetary reward system. Approximately 42% of agency directors and 27% of human resources managers indicated their agencies lack a monetary reward system.

Exhibit 3-14
Agencies Offer a Monetary Reward System



Source: Based on information provided by human resources managers and agency directors.

Recommendation: Educate state agencies on the various incentive programs that are allowed by law and encourage agencies to use these programs.

It is necessary that agencies have the freedom and managerial flexibility to meet individual goals and establish independent budgets. However, state employees deserve access to the various incentive programs that are currently available to state agencies..

The development and implementation of a performance-based incentive program (discussed above) will provide agencies with more options for incentive programs and will allow state employees additional reward opportunities for performance and achievement of measurable results.

Finding: *Employees can receive salary increases based on performance.*

Managers are able to recommend increases in an employee's salary based on performance. Presently, no statewide requirement exists for managers to demonstrate measurable results for the justification of performance increases.

Recommendation: **Require managers to demonstrate measurable improvement in an employee's job performance to award a performance-based salary increase.**

If the current salary system that allows salary increases of at management's discretion based on performance is maintained, agency managers should be required to demonstrate measurable results relating to an employee's performance. The justification for a performance increase could be the outcome of an employee review. The manager would have the ability to demonstrate the reasons behind the performance increase based on an assessment of the employee's achievement and/or progress towards predetermined and measurable goals.

Finding: *Employees can receive salary increases based on obtaining additional skills and/or knowledge.*

Managers can recommend increases in an employee's salary based on the acquisition of additional skills and/or knowledge. Presently, there is a requirement that the skills and/or knowledge be directly job-related.

Recommendation: **Agencies should ensure that there is appropriate documentation to demonstrate that the additional skills and/or knowledge are job related.**

In order for employees to receive a salary increase based on obtaining additional skills and/or knowledge, agencies should ensure that there is appropriate documentation to demonstrate that the additional skills and/or knowledge are job-related..

Finding: *In addition to the Office of Human Resources' human resources information system, several agencies maintain a separate information system to support human resources functions.*

Many agencies interviewed maintain a separate information system than the one supported by OHR. Nine of the ten agencies examined maintain separate systems but only six of those systems interface with OHR's Human Resources Information System (HRIS). Five of the nine agencies perform double entry of data, once into the agency's system and once into OHR's HRIS.

Five of the nine agencies maintaining a system independent of OHR's reported that their system's management reports provided better management information than OHR's new system's reports.

Reasons cited reasons for the maintenance of separate systems by agency officials included:

- Greater flexibility and technological advancement was provided by the agency's system when compared with OHR's HRIS
- OHR's system did not offer all the human resources management modules the agency required
- The agency prefers to have a decentralized human resources management system

A new central human resources information system (HRIS) became available in July 1997. The old system, which was position-based, served as the foundation for the new employee-and position-based system.

The next table identifies major key fields and requirements of the OHR HRIS.