Performance Audit:
Employee Compensation

October 2015

City Auditor's Office

City of Atlanta

File #15.04

Performance Audit:

Employee Compensation

Why We Did This Audit

We reviewed compensation practices as requested by the City Council in 14-R-4120, adopted September 15, 2014. The audit focuses on describing current workforce demographics and patterns in compensation changes since fiscal year 2009, reviewing departmental practices compared to city code, and comparing city code provisions regarding compensation to those of other cities and to industry best practices.

What We Recommended

To reduce the potential for internal and external salary inequities, the Commissioner of the Department of Human Resources should :

- Prepare for City Council consideration amentments to the personnel code to require a market study of benchmark positions be conducted every year with results presented to the City Council before the annual budget proposal, and to establish clear guidance on hiring above the minimum salary

- Review the compensation structure within salary grades annually across all departments citywide and report the findings to the City Council prior to the annual budget proposal

- Develop and present a strategy for Mayor and City Council consideration that moves employees to the midpoint of their pay grade

To strengthen salary management controls and reduce the appearance of internal inequities, the commissioner of human resources and the chief information officer should strengthen Oracle system controls to:

- Reflect base pay separately from time-limited incentive pay, differential pay, bonuses, and work out-of-class

- Standardize and define the list of salary transaction reason codes to align with city code requirements

- Comply with salary changes in code

For more information regarding this report, please use the "Contact" link on our website at www.atlaudit.org

What We Found

While city code contains several elements consistent with compensation best practices, actual practices could contribute to both real and perceived pay inequities. Differences among departments suggest uneven salary increases across the city and the opportunity for pay compression and internal inequity. We found little correlation between an employee's years of service with the city and the percent of midpoint earned within the pay grade. While pay should reflect performance rather than tenure, the weak correlation illustrates that the city has no mechanism for well-performing employees to progress through their pay grades and suggests compression, as newly hired employees earn similar amounts.

Salary compression occurs when one or more departments have greater ability or willingness to give raises than others within the organization with similar jobs. Salary compression also occurs when the market rate for a job outpaces the increases historically given by the organization. Departments then face pressure to recruit new hires by paying higher salaries than current employees earn. Reorganizations can also cause salary compression because they change peer relationships. Human resources literature offers suggestions to alleviate causes of compression and notes that it is better to prevent compression than to fix it after the fact.Text.

Lack of input controls and the way the city processes transactions make effective monitoring of code compliance difficult. Manual processes and lack of standardization increase likelihood of error. We identified hundreds of anomalies in our analysis of Oracle transactions since fiscal year 2013, and our review of 97 personnel files found six potential errors that affected employee salaries. The city has an opportunity to revise business processes with the planned Oracle upgrade to capture data necessary for effective monitoring and reporting

Management Responses to Audit Recommendations

Summary of Management Responses

Recommendation #1:	The commissioner of human resources should propose personnel code amendments to require annual market studies of benchmark positions and to provide guidance on above-minimum hiring.
Response & Proposed Action:	HR will conduct a full market study in this fiscal year and propose legislation to require a full study every two years subsequently. Limited updates can be done in the intervening years. **Partially Agree**
	No response was provided on hiring above the minimum salary.
Timeframe:	Beginning in FY2016
Recommendation #2:	The commissioner of human resources should annually review compensation within salary grades across all departments and report the findings to City Council prior to the annual budget proposal.
Response & Proposed Action:	HR will conduct the review and include the findings in the presentation of the annual budget-related personnel paper to Finance Executive Committee and in full council budget hearings. **Agree**
Timeframe:	Beginning in FY2016
Recommendation #3:	The commissioner of human resources should develop and present a strategy for the Mayor and City Council's consideration that moves employees to the midpoint of their pay grades.
Response & Proposed Action:	This recommendation will be added to the scope of the market study to be done this fiscal year. (Such a proposal was made in the 2011 study but it was not funded.) **Agree**
Timeframe:	FY2016
Recommendation #4:	The commissioner of human resources and the chief information officer should strengthen Oracle system controls to separate base pay from other forms of pay such as work-out-of class; standardize and define reason codes for salary transactions that align with code requirements; and comply with code requirements in city code.
Response & Proposed Action:	HR and AIM will include these requirements in the scope of the pending Oracle upgrade. **Agree**
Timeframe:	To be determined

CITY OF ATLANTA

LESLIE WARD
City Auditor
lward1@atlantaga.gov

AMANDA NOBLE
Deputy City Auditor
anoble@atlantaga.gov

AUDIT COMMITTEE
Marion Cameron, CPA, Vice Chair
Cheryl Allen, PhD, CPA
Daniel Ebersole

October 5, 2015

Honorable Mayor and Members of the City Council:

The City Council requested an audit of compensation practices when payments to a number of active employees for unused leave were disclosed by local media. In addition to this issue, the requested audit scope in Resolution 14R4120 included review of best practices among other cities and private sector organizations, reviewing city code, policies, procedures and practices for compensation and payroll, and changes in employee compensation. Our audit work addressed these issues.

The city's personnel code addresses most of the elements considered best practices in compensation management, comparing favorably with other cities' codified personnel policies. Several provisions of the code, however, are permissive rather than mandatory. Allowable practices such as salary increases based on performance are not necessarily implemented. Council review of employee compensation emphasizes review of individual personnel transactions. Systematic analysis of compensation structure plays a relatively small role in the annual budget process and longer-term financial planning and forecasting. Our data analysis shows indicators of salary compression across the workforce, a condition that can result in employee disgruntlement, perceptions of inequity, and low morale.

Two of our four recommendations call for regular review of such analysis as part of the budget process, including more frequent market comparisons and internal analyses such as salary distributions compared to pay range midpoints. A third suggestion is to develop a strategy for fully performing employees to progress to their midpoint salary over a period of time. We also recommend certain improvements and controls in the HR module of Oracle as part of a pending upgrade, which should ease transaction processing, improve accuracy, and facilitate analysis. The recommendations are directed to the commissioner of human resources, who agreed or partially agreed with all of them. Implementing them can bring transparency and structure to employee compensation and support the Council's ability to exercise its governance role in this area.

The Audit Committee has reviewed this report and is releasing it in accordance with Article 2, Chapter 6 of the City Charter. We appreciate the courtesy and cooperation of city staff throughout the audit. The team for this project was Brad Garvey, Susannah Larramee Kidd, Diana Coomes Lynn and Nia Young.

Leslie Ward
City Auditor

Marion Cameron
Audit Committee Vice Chair

Employee Compensation

Table of Contents

List of Exhibits

List of Figures

Introduction

We reviewed compensation practices as requested by the City Council in 14-R-4120, adopted September 15, 2014. The audit focuses on describing current workforce demographics and patterns in compensation changes since fiscal year 2009, reviewing departmental practices compared to city code, and comparing city code provisions regarding compensation to those of other cities and to industry best practices.

Background

Direct compensation refers to employees' hourly or salaried wages and other types of pay, including differential pay that is based on working conditions such as a shift differential or hazardous conditions, or incentive pay such as bonuses or increases to recognize attainment of credentials. Exhibit 1 summarizes types of direct compensation provided by the city. Total compensation includes benefits such as health and life insurance, retirement, and leave accruals that are outside of the scope of this audit.

Exhibit 1 Compensation Overview

Fixed Pay (based on position)				
Base Pay				

Differential Pay (based on working conditions)				
Longevity	Shift Differential	Pilot	Flight Observer	Hazardous Duty

Incentive Pay (based on performance)				
Education	Certification	Bilingual	Retention Bonus	Performance Bonus

Source: Adapted from IIA Research Foundation, 2009, and city code Sec. 114.101-114.142, HR policy 3.20, and HR policy 5.05.

The city's pay and classification plan establishes base pay. The plan is the city's formal system for classifying positions and compensating employees. It groups like jobs into classifications and assigns each class of positions to an appropriate pay grade. Classifications within a pay grade are intended to have similar duties and require similar levels of training, competencies, knowledge, skills, and abilities.

The city's pay and classification plan as of June 2015 identifies 974 job classes grouped into 69 pay grades. Job classes are further grouped into series that designate classes related to each other in terms of ascending difficulty and responsibility within the same occupational field. Exhibit 2 excerpts two job series—solid waste operator and accountant—from the pay and classification plan to illustrate how it works.

Exhibit 2 Examples from City Pay and Classification Plan

CLASS NAME	CLASS GRADE	CLASS-MIN	CLASS-MID	CLASS-MAX
Solid Waste Equipment Operator	G.10.	$27,100.00	$33,900.00	$40,700.00
Solid Waste Operator I (D)	G.12.	$29,900.00	$37,400.00	$44,900.00
Solid Waste Operator II (D)	G.13.	$31,400.00	$39,300.00	$47,200.00
Solid Waste Operator III (D)	G.14.	$33,000.00	$41,300.00	$49,600.00
Accountant	G.17.	$38,300.00	$47,900.00	$57,500.00
Accountant, Senior	G.19.	$41,000.00	$54,600.00	$68,300.00
Accounting Manager	G.21.	$47,300.00	$63,100.00	$78,900.00
Accounting Manager, Senior	G.23.	$54,700.00	$72,900.00	$91,100.00

Source: COA Classification Listing 6/10/2015 provided by the Department of Human Resources.

The city's pay grades are relatively wide; the average difference between the maximum and minimum of a pay grade for positions other than elected officials, public safety and seasonal is about 59%. Pay grades also overlap significantly. The overlap between grades G.12 and G.13 shown in Exhibit 2, for example, is 85%.

Sworn employees in the police and fire departments are still assigned to individual steps within a pay grade. Steps are a more traditional government pay structure and are more common in hierarchal or union-based organizations that value seniority. The city moved non-sworn employees to pay ranges in 2005. Exhibit 3 excerpts three pay grades from the Police Sworn Salary Schedule and two pay grades from the Fire Sworn Salary Schedule to illustrate how it works. Police officers are assigned to grade P2, senior police officers and investigators are assigned to grade P3, and sergeants are assigned to grade P4. Each grade has 12 steps. Each step represents a 3.5% increase. The pay grades are narrower than in the general classification plan with a 46% difference between the top and bottom steps. The overlap between sequential grades is also narrower than in the general classification plan with an overlap of 65%.

The fire salary schedule is similarly structured. Firefighters are assigned to grade F12 and fire sergeants, fire background

Employee Compensation

investigators, and fire command technicians are assigned to grade F14. Each grade has 12 steps. Each step represents an increase of about 3.1% at the lower steps and 3.5% above step 6. The difference between the top and bottom steps is about 43% and the degree of overlap between the two grades is 70.6%.

Exhibit 3 Examples from Annual Sworn Salary Schedule

GRADE	P2	P3	P4	F12	F14
Step 1	$39,327.60	$44,145.23	$49,553.03	$35,255.25	$38,641.27
Step 2	$40,704.07	$45,690.32	$51,287.38	$36,308.19	$39,836.36
Step 3	$42,128.71	$47,289.48	$53,082.44	$37,392.57	$41,068.41
Step 4	$43,603.22	$48,944.61	$54,940.32	$38,549.04	$42,338.57
Step 5	$45,129.33	$50,657.67	$56,863.24	$39,741.28	$43,648.01
Step 6	$46,708.86	$52,430.69	$58,853.45	$41,132.23	$45,175.69
Step 7	$48,343.67	$54,265.76	$60,913.32	$42,571.85	$46,756.84
Step 8	$50,035.69	$56,165.07	$63,045.29	$44,061.87	$48,393.33
Step 9	$51,786.94	$58,130.84	$65,251.87	$45,604.04	$50,087.09
Step 10	$53,599.49	$60,165.42	$67,535.69	$47,200.18	$51,840.14
Step 11	$55,475.47	$62,271.21	$69,899.44	$48,852.18	$53,654.55
Step 12	$57,417.11	$64,450.70	$72,345.92	$50,562.01	$55,532.46

Source: Police Sworn Salary Schedule and Fire Sworn Salary Schedule, January 2008, provided by the Department of Human Resources.

The city code establishes rules and definitions related to compensation, including the pay and classification plan. The commissioner of human resources is primarily responsible for administering and maintaining the classification plan. All changes to the plan, including the reclassification, creation, abolishment or salary adjustment of a position(s) must be approved by ordinance.

Employees are divided into the classified and unclassified service and are subject to different rules for appointment, promotion, and grievance procedures. Permanent full-time employees in the classified service may appeal actions to the civil service board and file grievances. Employees in the unclassified service serve at the pleasure of the appointing authority, with some exceptions for public safety employees. Sworn employees at the rank of captain and below in the police and fire departments may appeal actions to the board, except for demotions from discretionary ranks. All sworn employees in the police and fire departments may file grievances.

Figure 1 Definitions of Classified and Unclassified Service

The unclassified service consists of:

- Officers elected by the people or appointed to fill vacancies in elective offices

- Officers and employees exempted by law

- Members of boards, councils or special commissions:
    - Appointed by the mayor for special purposes
    - Created by council pursuant to sections 3-401 of the Charter
    - Employees of such boards, councils and commissions, unless council shall provide otherwise for the employees

- Any employee in the mayor's/executive office unless said employee holds a classified status as of March 1, 1998

- Assistants and employees in department of law

- Election officials

- Heads of department appointed by the mayor and confirmed by council

- Assistants reporting to department heads and heads of offices and agencies hired by appointing authority

- Sworn employees in departments of police and fire

- Employees of judicial agencies, the offices of the internal auditor and ethics officer

- Employees of the offices of municipal clerk, councilmembers, council president council staff, communications and all other administrative support employees reporting to the director of council staff.

- Classified employee who accepts an unclassified position

- Any position funded by grant or temporary funds

- All positions in classified service at pay grade 19 and above that become vacant on or after February 13, 1998 will be transferred to unclassified.

All other employees are classified.

Sec. 114-84. - Unclassified and classified service.

The Department of Human Resources processes personnel transactions that departments request using a manual form called the HR Employee Maintenance Turnaround Document (see Figure 2). Human resources staff reviews the document to ensure calculations are correct and enters the information into Oracle. The department has been rolling out ETADs, which automates the workflow of the electronic document but still requires manual entry into Oracle.

Figure 2 Turnaround Document

HR EMPLOYEEE MAINTENANCE TURNAROUND DOCUMENT (TAD)

EFFECTIVE DATE: _____   EMPLOYEE ID NUMBER _____

PEOPLE DATA

Name _____   SSN _____

CURRENT WORK ASSIGNMENT

Person Group: ☐ General ☐ Correction Sworn ☐ Fire Sworn ☐ Police Sworn
Position#_____ Job Title _____ Grade___ Step__ Hrly Rate _____ Annual Rate _____
Department _____
FOC: ☐ YES ☐ NO   Job Code _____   Job Title _____
Assignment Category: ☐Full-time Regular ☐Full-time Temp ☐Part-time Regular ☐Part-time Temp   Employee Category: ☐Classified ☐Unclassified

WORK ASSIGNMENT CHANGES

Salary Changes	Leaves	Moves	Terminations	Miscellaneous
☐ Upgrade ☐ Grade Change ☐ Education/ Experience/ Other Special Pay ☐ Salary Approved by CC ☐ Cost of Living Increase ☐ Other _____	☐ Military ☐ Sick ☐ Active/Mil ☐ FMLA ☐ Education ☐ Other ☐ Worker's Comp ☐ Suspension-Working Days__ _____ Suspension End Date ☐ Return from Leave	☐ Promotion __% ☐ Demotion __% ☐ Transfer ☐ Reassign ☐ FOC ☐ Temp to Full-time ☐ Fire 40 to 53 hrs ☐ Fire 53 to 40 hrs	☐ Resign Good Standing ☐ Resign Bad Standing ☐ Resigned ☐ Dismissed ☐ Terminated ☐ Retired ☐ Deceased ☐ Reduction in Force (RIF) ☐ Worker's Comp Settlement –DNR	☐ Reinstate CSB wo/pay ☐ Reinstate CSB w/pay ☐ Rescinded by Dept ☐ Rescinded by Empl ☐ Status Change ☐ Name/Address Chg ☐ Reprimand ☐ _____ Specify

Multiple Assignment: ☐ Person Group: ☐ General ☐ Correction Sworn ☐ Fire Sworn ☐ Police Sworn _____ Department Location Code _____	Assignment Category: ☐Full-time Regular ☐Full-time Temporary ☐Part-time Regular ☐Part-time Temporary Temp Person Type: (if applicable) ☐ Extra Help ☐ Intern ☐ Retiree ☐ Seasonal Employee Category: ☐Classified ☐Unclassified	Position# _____ Job Title _____ Job Code _____ Grade_____ Step_____ (if applicable) Hourly Rate _____ Annual Rate _____ Supervisor _____ FOC: ☐ YES ☐ NO Job Code _____ Job Title _____ Grade _____	Approver ID _____ Timekeeper ID _____ Profile Type (Check One) ☐ Approver ☐Timekeeper ☐ View Only (Empl) Employee Lunch (Check one) ☐0 ☐30 ☐45 ☐60 Sign-on Method (check one) ☐ Desktop ☐ Clock Swipe ☐ Clock Bio ☐ Tele Access

GRE INFORMATION: City of Atlanta   Shift: ☐Day ☐Evening ☐ Night

Purchase Order Info	GL Account Info	Grant/Project	COMMENTS:
Fund: _____ Dept: _____ Acct: _____ Funcact: _____	Fund: _____ Dept: _____ Acct: _____ Funcact: _____	Project: _____ Task: _____ (3-digits) Award: _____ Exp Type: _____ Exp Org: City of Atlanta Allow project task time entry in Kronos: ☐ YES ☐ NO	

Human Resources & Employee Benefits Use Only

Benefit Info	Payroll Info	Pension Info
☐ All Benefits ☐ No Benefits ☐ Health & Life ☐ Sick Lv., Vac, Incr. ☐ Medicare ☐ Pension Health & Life ☐ Continuation of Health Benefits ☐ Wait 90 days	Grade_____ Step_____ Hr/Day/Rate_____ Standard Gross_____ Annual Salary _____	Pension Fund _____ Hospital Co. _____ Life Company _____ Pension Plan _____ Mar. Status/Date _____

_____/_____ Employee Signature/ Date   _____/_____ Form Completed By/Date

_____/_____ Immediate Supervisor/Date   _____/_____ Certified by/Date

_____/_____ Bureau Head/Date   _____/_____ Dept. Head/Date

Rec'd HR Date _____   To Generalist Date _____   Return from Generalist Date _____   TAD Processed Date _____

HR Revision 6/15/2008

Current Workforce Demographics

The city's workforce of 8,161 permanent full time employees as of March 13, 2015, was 38% classified and 61% unclassified. The FLSA status was 22% exempt and 78% non-exempt. Employees in the general classification plan grade 18 and below were the largest group, followed by sworn police (See Exhibit 4).

Exhibit 4 Classification of Employees

Classification	Number of Employees	Percent
General Grade 18 and below	3,064	37.5%
General Grade 19 and above	1,562	19.1%
Police Sworn	2,104	25.8%
Fire	1,138	13.9%
Corrections	267	3.3%
Mayor and City Council	17	0.2%
Municipal Court Judges	9	0.1%
Total	8,161	100%

Source: Oracle, as of March 2015

Annual salaries ranged from $24,600 to $240,698, with a median of $44,259, which is just shy of the class midpoint salary for pay grade G16. Seventy-five percent of employees made $56,079 or less (See Exhibit 5).

Exhibit 5 Frequency Distribution of Annual Salaries
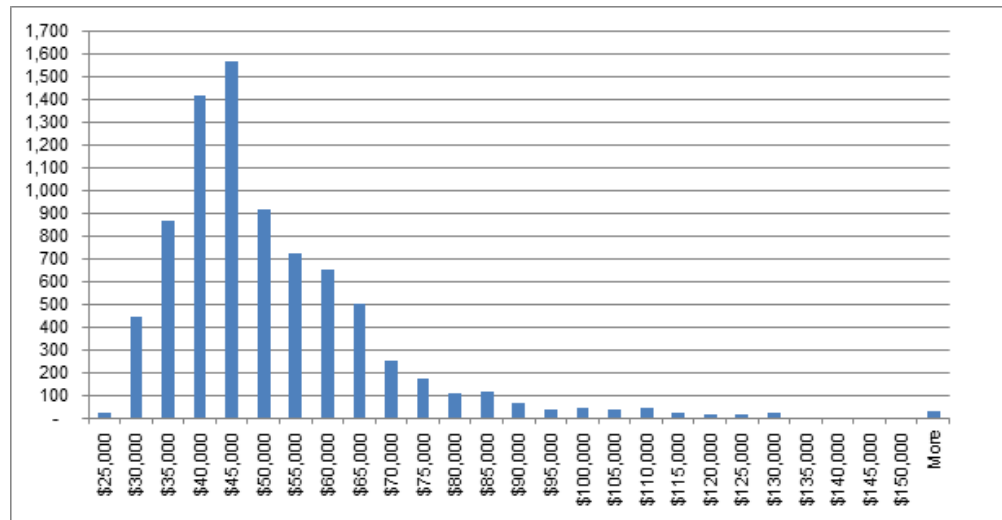
Source: Oracle, as of March 2015

Years of service with the city ranged from less than two weeks to 47 years, with a median of 9 years. About 30% of the workforce had been on the job for five years or less, with 9% having worked for the city for less than a year (see Exhibit 6).

Exhibit 6 Frequency Distribution of Years of Service
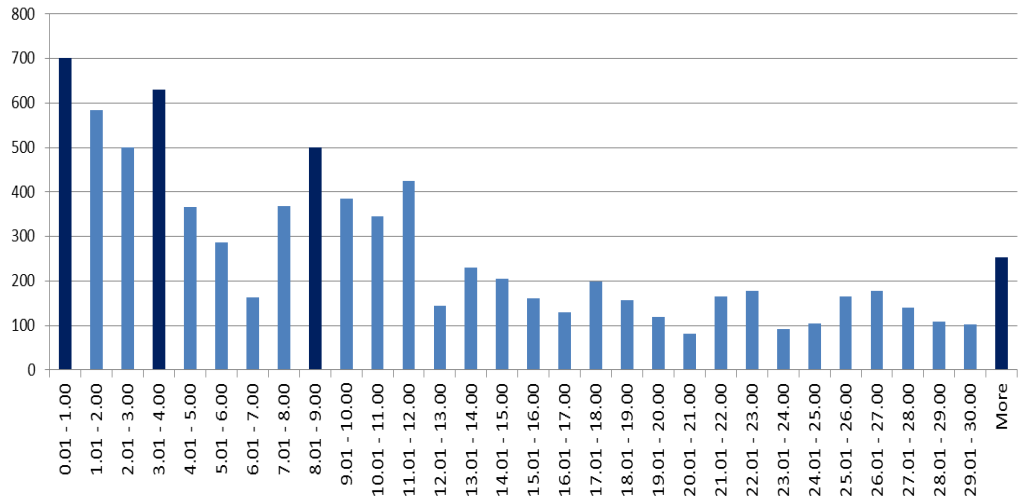
Source: Oracle, as of March 2015

The Atlanta Police Department had the largest number of employees, followed by the Department of Watershed Management and Atlanta Fire/Rescue. Smaller, professional departments had higher median annual salaries (See Exhibit 7).

Exhibit 7 Number of Permanent Full-Time Employees and Median Annual Salary by Department

Department	Number of Employees	Percent of Total	Median Annual Salary
Atlanta Police Department	2,570	31.5%	$43,618
Department of Watershed Management	1,301	15.9%	$45,297
Atlanta Fire/Rescue	1,195	14.6%	$43,567
Department of Public Works	733	9.0%	$35,984
Department of Aviation	507	6.2%	$50,250
Parks, Recreation and Cultural Affairs	344	4.2%	$34,103
Corrections	328	4.0%	$38,739
Executive Offices	248	3.0%	$45,000
Planning and Community Development	192	2.4%	$52,571
Municipal Court	143	1.8%	$36,682
Department of Finance	130	1.6%	$55,056
Department of Human Resources	116	1.4%	$52,452
Department of Information Technology	93	1.1%	$64,443
Department of Law	78	1.0%	$77,280
Solicitor's Office	54	0.7%	$63,190
City Council Offices	42	0.5%	$60,300
Department of Procurement	39	0.5%	$45,876
Public Defender	28	0.3%	$61,000
City Auditor's Office	13	0.2%	$65,000
Citizen's Review Board	4	<0.1%	$67,903
Ethics Office	3	<0.1%	$100,422
Total	8,161		$44,259

Source: Oracle, as of March 2015

Audit Objectives

This report addresses the following objectives:

- How does the city's compensation code compare to other cities' codes and to best practices?

- How do the city's compensation practices compare to best practices?

- How do the city's compensation practices compare to city code?

Scope and Methodology

We conducted this audit in accordance with generally accepted government auditing standards. We analyzed salary-related transactions recorded in Oracle with effective dates from July 1, 2008, through March 13, 2015, for all permanent full-time employees as of March 13, 2015. We limited our testing for compliance with code provisions to transactions occurring in or after fiscal year 2013 because the city adopted a new pay grade structure in 2012.

Our audit methods included:

- reviewing human resources literature to identify best practices related to compensation

- interviewing the commissioner of human resources and deputy commissioners and managers in the department to understand processes for setting and changing compensation

- reviewing city code to identify requirements related to employee compensation

- comparing city code provisions to best practices

- reviewing city codes in seven comparable cities to compare to best practices

- analyzing compensation-related transactions recorded in Oracle for full-time permanent employees current as of March 13, 2015

- reviewing a combined sample of 77 randomly selected and 20 judgmentally selected personnel files

- reviewing personnel ordinances approved in fiscal years 2012 through 2014

- reviewing direct payments to employees from July 1, 2008, to March 13, 2015, to identify salary advances

- reviewing payroll data from Oracle to identify potentially improper leave payouts to employees

- analyzing leave payouts to employees who were subsequently rehired

Generally accepted government auditing 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.

Findings and Analysis

City Could Strengthen Compensation Practices and Market Competiveness

While city code contains several elements consistent with compensation best practices, actual practices could contribute to both real and perceived pay inequities. Differences among departments suggest uneven salary increases across the city and the opportunity for pay compression and internal inequity. We found little correlation between an employee's years of service with the city and the percent of midpoint earned within the pay grade. While pay should reflect performance rather than tenure, the weak correlation illustrates that the city has no mechanism for well-performing employees to progress through their pay grades and suggests compression, as newly hired employees earn similar amounts.

Salary compression occurs when one or more departments have greater ability or willingness to give raises than others within the organization with similar jobs. Salary compression also occurs when the market rate for a job outpaces the increases historically given by the organization. Departments then face pressure to recruit new hires by paying higher salaries than current employees earn. Reorganizations can also cause salary compression because they change peer relationships. Human resources literature offers suggestions to alleviate causes of compression and notes that it is better to prevent compression than to fix it after the fact.

The city could strengthen its competitiveness and better guard against salary compression by conducting more frequent market studies, analyzing compensation annually within salary grades before preparing the annual budget, establishing clear guidance on hiring above the minimum salary, and by developing a strategy to move employees through their pay grades to the midpoint in order to compensate fully performing employees at the market rate.

Lack of input controls and the way the city processes transactions make effective monitoring of code compliance difficult. Manual processes and lack of standardization increase likelihood of error. We identified hundreds of anomalies in our analysis of Oracle transactions since fiscal year 2013, and our review of 97 personnel

files found six potential errors that affected employee salaries. The city has an opportunity to revise business processes with the planned Oracle upgrade to capture data necessary for effective monitoring and reporting.

Atlanta Falls in the Middle among Comparable Cities for Codifying Best Practices

We identified six best practices related to compensation and assessed how many were in the codes for Atlanta and for seven comparable cities. Atlanta contained three elements of these best practices to maintain internal and external pay equity and to recognize employee performance. Two of the comparable cities contained no elements, while one contained all six.

Atlanta code descibes a compensation philosopy that expresses intent to establish a pay plan that is competitive with the labor market and maintains internal equity among like jobs. It also provides for performance-based raises and incentives. Provisions for monitoring internal and external equity could be strengthened. The code requires the commissioner of human resources to assess the need at least every five years to conduct a market study of benchmark positions. Best practices recommend conducting a study annually to maintain competitiveness. With the expiration of the compensation committee's authority, approval for above-entry hiring rests with the commissioner of human resources, according to the Law Department. Best practices call for controlling the circumstances under which the organization hires above the minimum and monitoring to maintain internal equity.

Best practices lay out a framework for internal and external equity. We identified six best practices related to compensation that lay out a framework for an organization to maintain internal and external pay equity and to address organizational risks associated with employee pay:

- Conduct an annual or semi-annual review of the compensation plan
- Consider market rates
- Increase salaries based upon employee performance
- Encourage employee performance through incentive programs
- Hire above the minimum based on applicant qualifications
- Maintain internal equity among positions

Government compensation programs have the additional responsibility to be transparent, especially in the case of executive pay. Organizations should administer pay programs consistently to ensure fairness. The risks of not following these best practices are employee dissatisfaction, difficulty recruiting and retaining employees, and legal liability.

Best practices recommend that employers perform market analyses of current salary data at least every year. Lack of competitiveness can contribute to an inability to attract and retain qualified staff. Responding to market pressure in hiring new staff without addressing the overall compensation structure can lead to salary compression, which occurs when the compensation of more experienced or higher-level employees is close to that of less experienced or lower-level staff. Salary compression can lead to staff dissatisfaction and increased turnover. Organizations should conduct analyses annually to monitor salary compression.

Transparency in compensation practices and performance expectations contributes to pay equity. Instituting transparency across business units and requiring several approvals can aid in instilling compensatory norms across organizations. Transparency allows management and employees to understand classification systems. Knowledge of the rates of promotions and increases in an organization can contribute to transparency, which contributes to a predictable system for employees. Without a clear compensation structure, it can be difficult to perform employee evaluations and can result in pay inequities or failure to reward employee performance.

Salary increases should be tied to employee performance. Lack of a reward system for employees can result in management treating staff inconsistently and employees becoming dissatisfied, which can result in employee loss.

Atlanta code contains elements of best practices. The code expresses intent to consider the market in establishing employee base pay and to consider employee performance in individual pay. The code also authorizes incentive pay based on attainment of certain credentials or skills that should enhance performance. The code states that pay plans should be understandable by employees, which should contribute to transparency.

Atlanta code lacks elements of best practices. Although the code contains elements of best practices, some areas could be strengthened. While the code expresses intent to pay employees competitively with the market and allows for the commissioner of human resources to conduct market studies, it only requires the commissioner to assess the need for a study once every five years. Best practices call for conducting a market study every year. Less frequent market comparisons could contribute to city salaries lagging the market. Provisions for the compensation committee to review and approve starting salaries above the minimum have expired, although still published in the code of ordinances. The law department has opined that approval authority now rests with the human resources commissioner, but the code does not provide guidelines. Best practices call for controlling hiring at salaries above certain levels and establishing monitoring mechanisms to maintain internal equity. Lack of established criteria for hiring above the minimum salary could result in pay compression.

Compared to other cities, Atlanta is in the median in terms of codifying best practices. We assessed city codes for Atlanta and for seven other cities for consistency with the best practices (see Exhibit 8).[1] Atlanta code contains three practices: intent to consider market rates, raises based on employee performance, and incentive programs to encourage employee performance. Three other city codes—Denver, Seattle, and St. Louis—also contain three best practices. Charlotte and Kansas City met five and six practices, respectively. The codes for Cleveland and Miami contain no elements of the best practices; their codes primarily address rules related to civil service positions.

Five cities including Atlanta address maintaining external equity by considering market rates in compensating employees. Atlanta's compensation philosophy states, "pay plans shall be as competitive as practicable with equity between internal and external peers in like job families, and shall reflect the specific labor markets from which the jobs compete for top talent." Charlotte considers market rates for new hires and management submits requests for market adjustments annually for council approval. This process occurs after reviews by human resources and budget and evaluation. The Denver

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[1] These are the seven cities Bain and Company used for comparison in its 2002 Budget Analysis and Benchmarking Report, based on analysis of census data and adopted budgets.

city code requires annual assessment for market adjustments with mayoral and council approval of the pay plan each year. In Kansas City, the human resources director is to consider market data when preparing the annual budget to submit to the city manager. Seattle considers market groups when setting base salaries for new employees and conducts market studies every two years for certain positions.

Cities also maintain pay equity by evaluating candidate qualifications and monitoring compensation plans. Five cities can hire above the minimum based upon qualifications or for recruitment purposes. Approval mechanisms are in place for hiring above the minimum in Charlotte, Denver, and St. Louis. Seattle and St. Louis can hire above the minimum if needed for recruitment purposes.

Two cities have specific provisions in their codes to consider internal equity when hiring above the minimum. Kansas City makes the hiring department responsible for maintaining internal equity within a job class and with other classes when hiring above the minimum. St. Louis code states that employees within classes may have their salaries adjusted after the establishment of a recruitment rate. Although there is not language to consider maintaining internal equity in more codes, the four cities that conduct market studies once every one or two years may address it in this manner.

Most cities we assessed have provisions in their codes to reward employee performance through raises or incentives. Atlanta code allows for raises based on employee performance. Charlotte, Kansas City, Seattle, and St. Louis codes also have provisions for increasing salaries based on employee performance. Charlotte, Kansas City, and St. Louis have code provisions specifically for individual raises based on exceptional performance. Seattle has two programs with pay bands: an executive program containing four zones within the band and a manager and strategic advisor program containing three pay zones in its band. Appointing authorities can set initial pay and authorize changes in both programs within the pay zones. Atlanta and Charlotte codes allow incentives for employee retention and linguistic and educational attainment; directors in Kansas City can establish incentives for employee performance and achievement levels. In addition, Atlanta provides incentives for attaining professional certifications or licenses. The executive manager and

strategic advisor programs in Seattle allow for incentives for accomplishing goals and work outcomes.

Exhibit 8 Codification of Best Practices Across Cities

Best Practice	Atlanta	Charlotte	Cleveland	Denver	Kansas City	Miami	Seattle	St. Louis
Conduct annual review of compensation plan		*		*	*			
Compensation purposes consider market rates	*	*		*	*		*	
Raises based on employee performance	*	*			*		*	*
Develop incentive programs to encourage employee performance toward goals	*	*			*			
Hire above the minimum based on qualifications		*		*	*		*	*
Maintain internal equity of positions					*			*

Source: Audit team analysis of best practices and city codes

We recommend the commissioner of human resources prepare for city council consideration amendments to the personnel code to require a market study every year, to be presented to the council before the annual budget is proposed, and to establish clear guidance on hiring above the minimum salary.

City Practices Contribute to Internal and External Inequity

Overall, city employees were paid at a median of 91.6% of midpoint for their pay grades, suggesting that pay lags the market. Departments show considerable variation in how much employees are paid in relation to the midpoint of their pay grades, suggesting salary compression and internal inequity. Further, we found little correlation between an employee's years of service with the city and the percent of midpoint earned, also suggesting salary compression. Human resources literature identifies ways to prevent compression, which are mostly not part of city practices.

We recommend the commissioner of human resources analyze compensation annually within salary grades and report the findings to the City Council before the annual budget is proposed. The commissioner should also develop and present a strategy for Mayor and City Council consideration to move employees through their pay

grade to the midpoint in order to compensate fully performing employees at the market rate.

Differences among departments suggest uneven salary increases across the city and the opportunity for pay compression and internal inequity. The median percent of midpoint by department varied between 80.3% and 100.2%, indicating that the departments individually decide where their employees will fall on the pay scale, face different budgetary constraints, or have different levels of tenure (See Exhibit 9). The midpoint of a salary range usually represents the market rate for a fully performing employee in a position. The percent of midpoint, also called a compa-ratio, is a common measure for assessing how an employee's salary compares to the overall salary structure. A ratio below 100 means the employee is paid below the market rate for the position. A median percent of midpoint below 100 for a department means that most employees in the department are paid below the market rate. The percent of employees at or above the midpoint by department ranged from 10.3% to 57.7%.

The Society for Human Resource Management identifies differences among departments in propensity to give raises as a major cause of salary compression that an organization can control. Compression occurs when one department is relatively liberal with salary increases and promotions while other departments within the organization that offer the same types of jobs are not, creating small differences in pay between employees regardless of their skills or experience. Salary compression also results when the market-rate for a given job outpaces the increases historically given by the organization. Departments face pressure to recruit new hires by paying higher salaries than more senior current employees earn. According to the Society for Human Resource Management, when salary compression is prolonged over several years, demoralizing effects can lead to widespread dissatisfaction. Salary compression thus transforms compensation from a motivator into a demotivator within a workforce.

Reorganizations can also create salary compression because they change peer relationships. Twelve of 27 pay ordinances in the last four fiscal years reclassified positions from one pay grade to another. Ordinance 12-O-1318, effective in fiscal year 2013, amended the city's classification plan in line with the Department of Watershed Management's reorganization. While the legislation provided for equity adjustments to employees whose salaries were now lower compared with peer employees within the department, it

could have contributed to citywide differences. The Department of Watershed Management is the third highest department in terms of employees at or above the midpoint for their position, behind City Council, excluding employees in CC pay grades without a specified range, and the Citizens' Review Board.

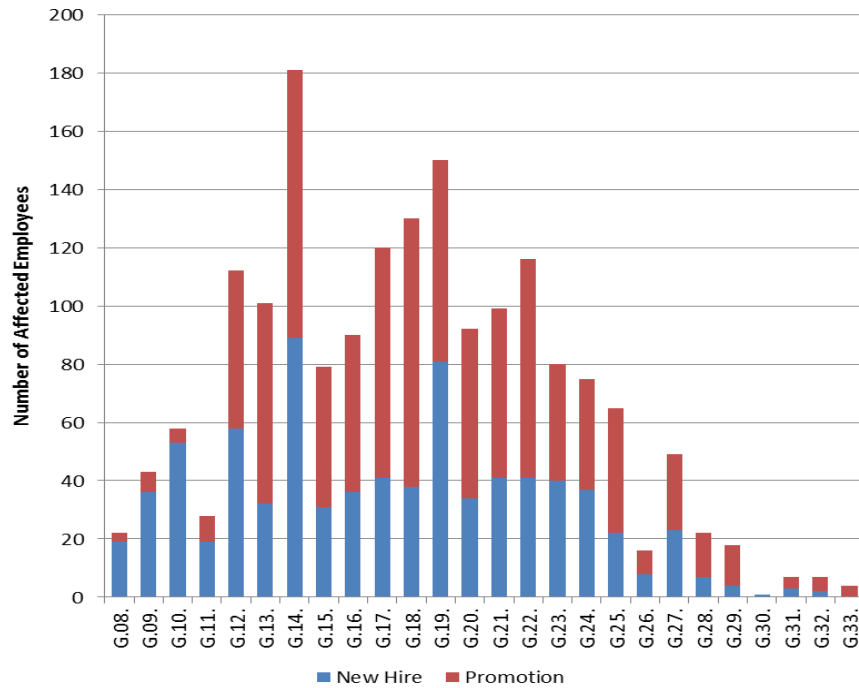**Exhibit 9 Salary Midpoint Analysis for Departments**

DEPARTMENT	MEDIAN PERCENT OF MIDPOINT	PERCENT OF EMPLOYEES AT OR ABOVE MIDPOINT
City Council	100.2%	57.7%
Ethics Office	99.7%	33.3%
Watershed Management	97.4%	36.9%
Citizen's Review Board	97.3%	50.0%
Human Resources	94.4%	32.2%
Solicitor's Office	92.9%	35.2%
Planning and Community Development	92.8%	27.9%
Executive Offices	92.5%	28.1%
Atlanta Fire and Rescue	92.3%	31.2%
Finance	91.8%	31.8%
Atlanta Police	91.6%	28.5%
Aviation	90.9%	28.0%
Corrections	90.4%	34.0%
Public Works	89.9%	27.8%
Audit	89.1%	28.6%
Information Technology	88.1%	24.7%
Public Defender	86.0%	25.0%
Procurement	84.9%	10.3%
Parks, Recreation and Cultural Affairs	83.9%	13.7%
Municipal Court	82.3%	22.9%
Law	80.3%	21.8%

Source: Oracle through March 2015

Human resource literature identifies ways to alleviate compression, which are mostly not part of city practices. The Society for Human Resource Management offers suggestions to alleviate causes of compression and notes that it is better to prevent compression than to fix it after the fact. Most organizations should conduct a market rate analysis annually and organizations with salary compression, high turnover rates, or those that do a great deal of hiring may need to conduct an analysis every six months. The city's current compensation practices generally focus on individual positions through the personnel papers, rather than evaluating groups of positions throughout the city over multiple departments.

Another practice recommended to prevent compression is to promote employees from within the organization whenever possible. Since fiscal year 2013, the city has filled about 55% of its vacancies in the general pay classification through promotion (see Exhibit 10).

Exhibit 10 Newly Hired Employees versus Promotions July 2012-March 2015

In cases where it is not feasible to promote from within, organizations should look for high-potential external candidates who are ready to move up into the job and will see the position as a promotion, while instituting practices that limit salary for new hires. These practices reduce the organization's need to pay the new hire a premium that could be a higher annual salary than current employees receive for the same work.

The organization should review incumbents' pay compared with newly hired employees' in order to identify potential salary inequity. Organizations should also reevaluate positions against internal conditions after reorganization in order to reduce the likelihood of compression.

We recommend the commissioner of human resources analyze compensation annually within salary grades and report the findings to the City Council before the annual budget is proposed.

Overall, city employees earned a median of 91.6% of the midpoint of their assigned pay grades, suggesting that pay lags the market. Because the midpoint of the pay grade is intended to represent the market rate and the city's last market study was conducted in 2011, the overall median ratio of pay to midpoint below 100 indicates that city employees are paid below market rates for comparable jobs. When the city adopted its current pay and classification plan in February 2012, council passed Ordinance 12-O-0209 to bring all employees up to at least 80% of the midpoint. According to the commissioner of human resources, the city had not completed a citywide pay and classification study since 1995.

Best practices for salary administration encourage employers to fully use their salary ranges and move employees to the midpoint quickly. Exhibit 11 illustrates how an employee's salary can increase in a pay and classification plan. An employee can move vertically into a higher pay grade through promotion or reclassification to reflect expanded responsibilities or scope of duties, or an employee can move horizontally within a pay grade through performance-based merit increases. Differential pay to accommodate specific working conditions or incentive pay to recognize specific contributions or credentials can also move an employee horizontally within a pay grade. Typically, these additions to base pay are time limited and must be maintained. Cost-of-living adjustments typically shift the entire pay grade without changing the employee's relative position in the grade.

Exhibit 11 Progression in Salary Schedule Example
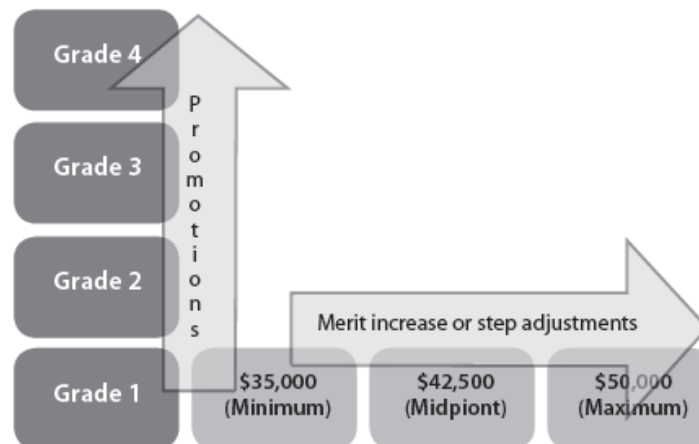
Source: IIA Research Foundation, 2009

City code and human resource policies offer no clear course of action for employees to progress through a pay grade. The code provides for each permanent employee to receive an annual salary increase based on performance as long as the funds are adopted by ordinance. The code also states that employees may receive an increase in pay based on changes in duties or responsibilities and other qualifying factors which shall not exceed ten percent of their current salary in a given 12-month period. Again, funds for such increases must be adopted by ordinance. Absent specific legislation or slack in a department's budget, there is no way to progress through the grade.

The median number of salary-related changes since fiscal year 2009 for current employees was three (see Exhibit 12). Ten percent of current employees have had no increase in pay during their employment with the city; 84% of these employees were hired after January 1, 2014, which was the date the last across-the-board pay increase went into effect. Fifteen percent of the remaining employees were assigned to pay grade of G19 or higher, and were excluded from the across-the-board increase.

Exhibit 12 Frequency Analysis of Salary-Related Changes by Employee

Number of Changes	Frequency	Cumulative Percent
0	843	10.3%
1	756	19.6%
2	2097	45.3%
3	1966	69.4%
4	1500	87.7%
5	591	95.0%
6	253	98.1%
7	90	99.2%
8	39	99.6%
9	14	99.8%
10	6	99.9%
11	4	99.9%
12	4	100.0%
More	1	100.0%

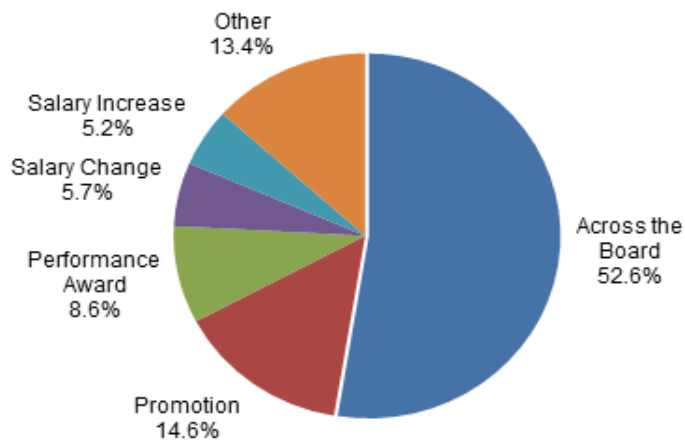**Source:** Oracle, July 2008 through March 2015

The city offers few opportunities for performance-based pay in practice. We identified two across-the-board salary increases since fiscal year 2009; Ordinance 13-O-0619 authorized the increases in two parts during fiscal year 2014. The first increase became effective July 1, 2013, and provided a 3% salary increase for all

classified employees and Department of Corrections employees, with all other employees earning less than $60,000, including sworn personnel, receiving a 1% salary increase. The second increase went into effect January 1, 2014, and added a 0.5% increase to all classified employees, Department of Corrections employees, employees earning less than $60,000 and sworn professionals. These across-the-board increases excluded employees with an annual salary greater than $60,000, a group that represents 18.7% of the current workforce.

Differential and incentive pay is limited to about 15% of the job titles, 143 out of the 974 in the current classification plan, and is concentrated in public safety positions. Certification incentives, which are available for specific positions within the city, are not included on the current pay and classification plan. Sworn police officers may also be eligible for a one-time retention bonus, an incentive payment of $3,000 on their fifth anniversary.

We analyzed 25,237 salary-related transactions recorded in Oracle for the current workforce from July 1, 2008, through March 13, 2015. After removing new hire and rehire transactions, the city processed 22,405 total salary-related changes. The most frequent salary-related change was across-the-board increase, followed by promotion. Two departments, Atlanta Police and Atlanta Fire and Rescue, granted performance awards during fiscal year 2011, which accounted for the third highest category of salary changes over the seven-year span (see Exhibit 13).

Exhibit 13 Top Salary-Related Changes For All City of Atlanta Employees

Source: Oracle, July 2008 through March 2015

Reason codes were inconsistently applied and have no standard definitions within Oracle. We identified 81 unique reason codes and re-categorized those into 24 reasons for our analysis (see Exhibit 14). Categories such as new hire, rehire, transfer, and demotion had four or more different variations for the reason codes. Over half of the total salary-related transactions occurred in fiscal year 2014, with across-the-board representing the majority of the transactions.

Exhibit 14 Salary-Related Transactions by Reason and Fiscal Year

Type of Proposal Reason	FY09	FY10	FY11	FY12	FY13	FY14	FY15	Total
Across the Board	1					11,785		11,786
Active Survivor						1		1
Demotion	18	18	27	28	23	18	20	152
Education-Related Increase	2	2		12	24	25	19	84
Equity Adjustment						3		3
Experience Incentive			3		2	23		28
Hazard Pay	42	38	44	30	43	52	31	280
New Hire	120	197	241	495	410	458	485	2,406
Offer Status Change	2					1		3
Other	15	20	12	46	51	46	21	211
Pay & Class				432	390			822
Performance Award			1,930					1,930
Promotion	254	489	521	519	521	571	402	3,277
PS Step Increase	83	114	153	202	200	148	83	983
Rehire	57	84	76	49	50	51	59	426
Reinstatement	19	52	32	10	8	9	2	132
RIF	5	5	1					11
Salary Change	43	81	94	245	277	400	125	1,265
Salary Correction	12			2	2	5		21
Salary Decrease		2	1	1	1			5
Salary Increase	104	90	181	202	269	196	114	1,156
Schedule Change	31	32	32	31	27	24	23	200
Temporary							1	1
Transfer	11	5	2	2	8	16	10	54
Total	**819**	**1,229**	**3,350**	**2,306**	**2,306**	**13,832**	**1,395**	**25,237**

Source: Oracle, July 2008 through March 2015

The Atlanta Police Department accounted for 34% of all salary-related transactions. Of those, we categorized almost half of transactions, 48%, as across-the-board increases, 15% as performance awards, 9% as new hires and 9% as promotions. Atlanta Fire and Rescue followed with 19% of the total transactions and the Department of Watershed Management a close third, with 14% of the total (see Exhibit 15).

**Exhibit 15 Salary-Related Transactions by Department**

Department	# of Salary Transactions	% of Total
Atlanta Police Department	8,668	34.3%
Atlanta Fire/Rescue	4,782	18.9%
Department of Watershed Management	3,631	14.4%
Department of Public Works	1,992	7.9%
Department of Aviation	1,178	4.7%
Parks, Recreation and Cultural Affairs	1,067	4.2%
Corrections	876	3.5%
Executive Offices	616	2.4%
Planning and Community Development	573	2.3%
Department of Finance	355	1.4%
Municipal Court	349	1.4%
Department of Human Resources	291	1.2%
Department of Information Technology	224	0.9%
Department of Law	202	0.8%
Solicitor's Office	140	0.6%
Department of Procurement	101	0.4%
City Council Offices	74	0.3%
Public Defender	63	0.2%
City Auditor's Office	27	0.1%
Ethics Office	15	0.1%
Citizen's Review Board	13	0.1%
Total	**25,237**	**100%**

Source: Oracle, July 2008 through March 2015

We found little correlation between an employee's years of service with the city and the percent of midpoint earned in his or her pay grade; years of service accounts for about 27% of variation among employees' placement within the grade (see Exhibit 16). While the city's compensation philosophy states, "no employee shall be guaranteed compensation just for adding another year to organizational service," the weak correlation illustrates that the city has no mechanism for moving employees quickly to the midpoint and suggests compression as newly hired employees earn similar amounts as existing employees.

We also found little correlation between the number of salary-related changes since fiscal year 2009 and the amount of time employed over this period; time employed represents 18.7% of the variation in the number of salary changes (see Exhibit 17).

Employee Compensation

Exhibit 16 Percent of Midpoint versus Tenure

$$y = 0.0073x + 0.8666$$
$$R^2 = 0.2699$$
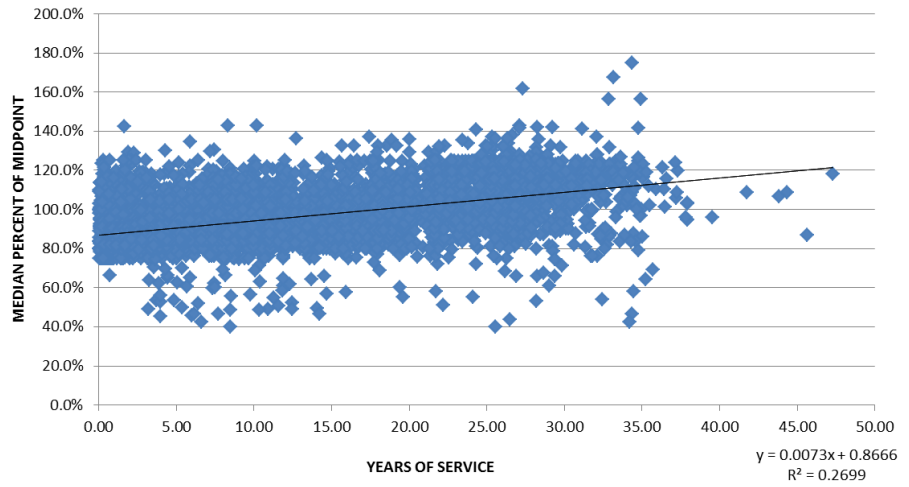
Source: Oracle, July 2008 through March 2015

Exhibit 17 Salary-Related Changes versus Tenure

$$y = 0.3095x + 1.0805$$
$$R^2 = 0.1874$$
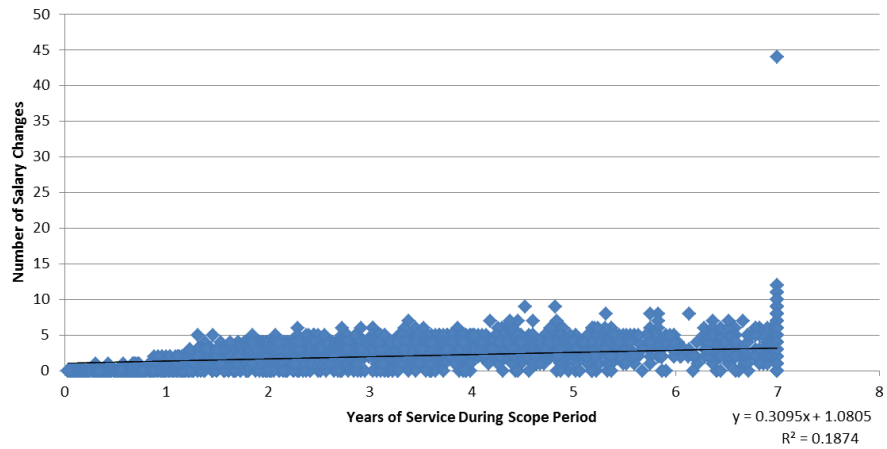
Source: Oracle, July 2008 through March 2015

We recommend the commissioner of human resources develop and present a strategy to the Mayor and City Council that moves employees through their pay grade to the midpoint in order to compensate fully performing employees at the market rate.

Inconsistent Data Processing and Errors Make Assessing Compliance Difficult

Lack of input controls and the way the city processes transactions make effective monitoring of code compliance difficult. The city processes all salary-related transactions as changes to base salary and reason codes on turn-around documents do not align with city code provisions. We identified hundreds of anomalies in our analysis of Oracle transactions since fiscal year 2013, and our review of 97 personnel files found six potential errors that affected employee salaries, with two resulting in paying employees more than intended and four resulting in paying employees less than intended/required. We found additional inconsistencies in how transactions were coded that did not affect salaries. Manual process and lack of standardization increase likelihood of error. The city has an opportunity to revise its business processes with a planned Oracle upgrade to capture data necessary for effective monitoring and reporting.

We recommend strengthening Oracle controls to reflect base pay separately from additional types of compensation, reduce variation among reason codes, and improve transparency of transactions, which will increase the ability to monitor salary increases and internal inequity.

City processing of salary-related transactions does not align with city code provisions. The city processes all salary-related transactions as changes to base salary. Differential pay, incentives, temporary work out-of-class, and one-time bonuses are all added to base salary which inhibits effective monitoring and could contribute to perceptions of inequity. For example, we reviewed a transaction recorded as an hourly increase for a part-time employee to $117.51 per hour. The transaction lasted for only one pay period and was apparently intended to provide a one-time bonus to a council aide who had accepted another position in the city. Similarly, we saw annual increases of more than 20% and up to 64% recorded as "compensation," which is generally used to signify payment for work out-of-class. The code limits the amount of annual increases, but there isn't a clear method to distinguish them from these other transactions. The existence of the anomalous transactions also indicates a lack of input controls in Oracle.

Furthermore, the reason codes on the city's turn-around document do not align with city code provisions. The form provides check boxes for salary adjustment, hourly rate increase, hourly rate

decrease, education incentive, experience incentive, special pay, upgrade, promotion, and others. The terms are not defined and we observed inconsistencies in how departments completed the forms. The form has no code for position reclassification; we saw position reclassifications recorded as promotions or salary adjustments. We also observed apparent inconsistencies between the turn-around documents and Oracle entries. When human resources staff enter more than one transaction for an employee with the same effective date into Oracle, the system saves the information in the salary history view as one transaction. Departments with "view only" access to the data do not see all of the components of the transaction. For example, Oracle shows "Hazard Pay" as the reason for about 1% of salary-related transactions during the period of our review. In our review of files, we saw six increases for hazard pay rolled into a promotion or starting salary rather than displaying as a separate transaction. We saw an example of an educational incentive displayed in Oracle as a promotion.

Without transparency in transactions, it is difficult to tell the number of employees who are currently receiving differential or incentive pay, which could contribute to perceptions of pay inequity. Because some incentives require a reevaluation, such as the bilingual incentive pay that requires biannual retesting to maintain the incentive, inconsistent records in Oracle also create difficulty in monitoring compliance.

The city's classification plan does not list the salaries associated with different pay steps for police and fire. Actual salaries within the fire pay steps varied up to 19.6% at lower ranks, at least in part because incentive pay is incorporated into base compensation, but these anomalies could mask errors. Higher ranks—F24 (battalion chiefs and section chiefs) and above—do not have steps. Exhibit 18 shows the range of actual salaries within each pay step. The bottom line shows the minimum, the top line shows the maximum, and, where applicable, the box shows the second and third quartiles.

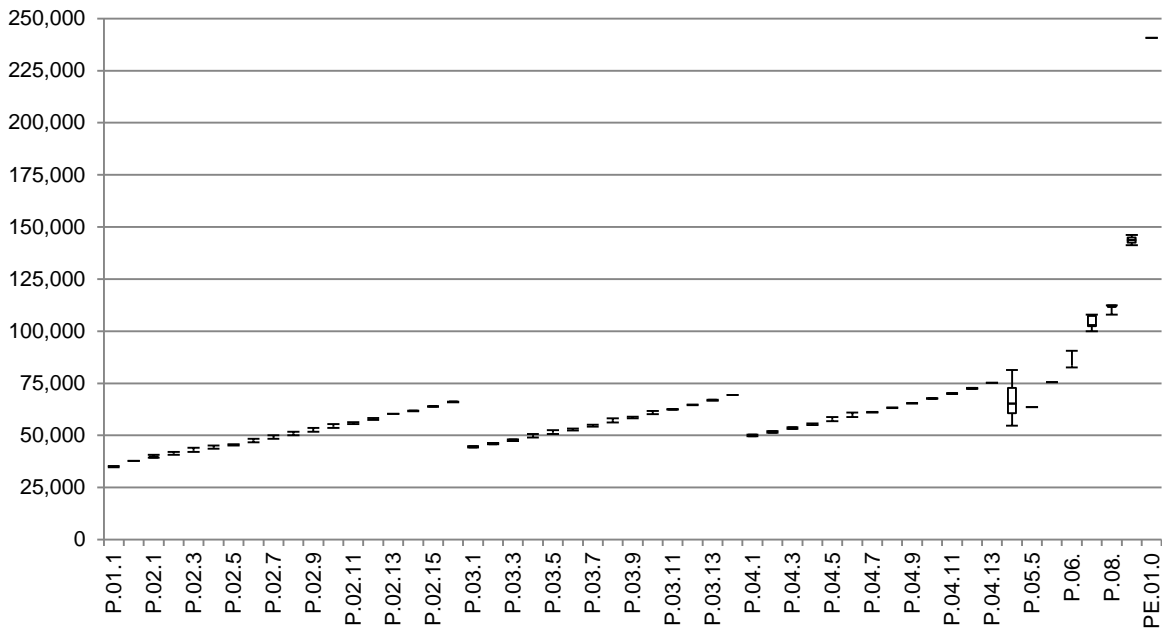**Exhibit 18 Fire Annual Salaries within Pay Steps**
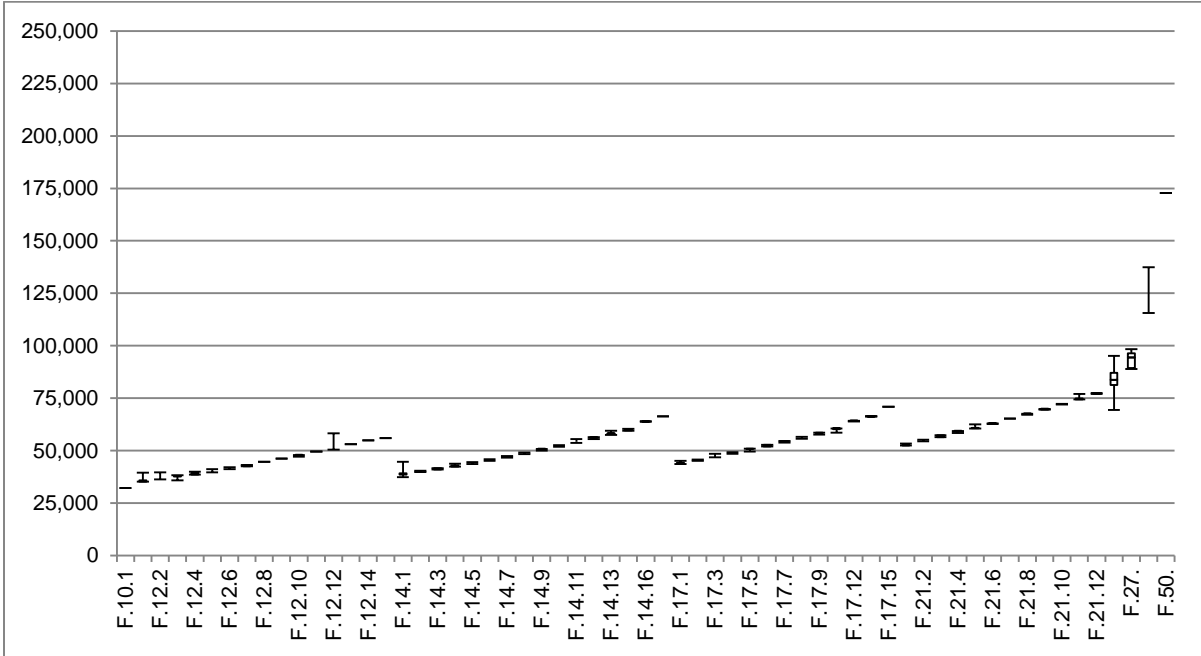
Source: Oracle as of March 2015

Police salaries were less variable within steps; the widest range within a step was 4.6% at lower ranks (see Exhibit 19). Higher ranks P.06 (police captain) and above do not have steps.

Exhibit 19 Police Annual Salaries within Pay Steps

Source: Oracle as of March 2015

Employee Compensation

Some employees appeared to be paid outside of their pay grade; most of these seem to be incorrect pay grades recorded in Oracle. City code requires the pay plan to establish the salaries or wages of all classes within the classification plan including the minimum, midpoint, and maximum salaries. All employees must be paid within the grade to which they are assigned and no salary may be above the maximum for its classification. We identified 177 employees in the general classification plan (3.8%) with salaries outside of their pay grade, including 88 employees with salaries below the minimum pay for their grade and 89 employees with salaries above the maximum. Exhibit 20 shows the salary ranges for the pay grades in blue, the distribution of actual salaries are overlaid with the bottom line indicating the minimum salary in the pay grade, the top line indicating the maximum, and the box showing the second and third quartiles. Most appear to be incorrect pay grades assigned in Oracle where the old pay grade from the previous classification plan is still recorded, and 30 instances appear to be rounding errors.

Exhibit 20 Actual Annual Salary Distributions Compared to Pay Grade for General Classifications
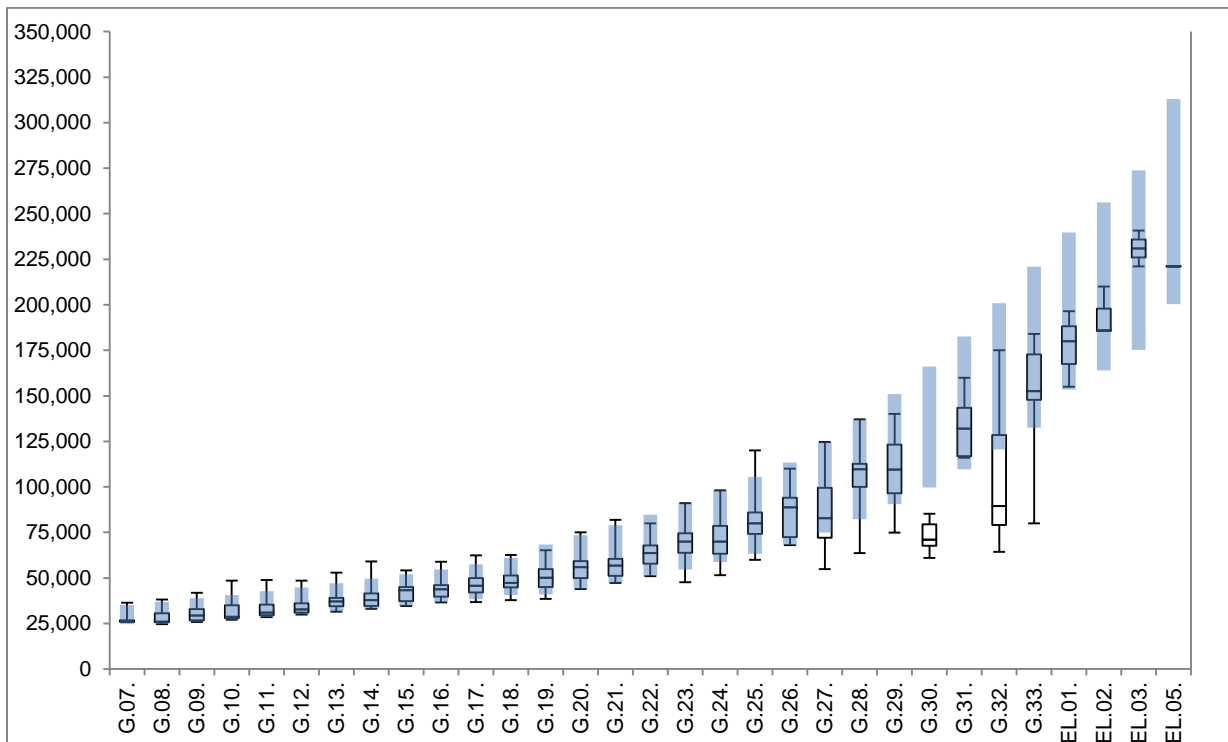
Source: Oracle as of March 2015 and COA Classification Listing 6/10/2015

We also identified 27 employees in pay grades that no longer exist such as G35, G41, SM.08. We sent the list of apparent errors to the

Department of Human Resources for follow-up. The fact that these errors are possible in Oracle indicates that pay grade does not function as a control on salary.

56.6% of employees were hired above the minimum salary for their pay grade since March 2013. Legislation taking effect in March 2012 authorized above-minimum salaries for new hires. Department heads were allowed to hire up to the midpoint for positions in grades 22 and above, and the Mayor was permitted to hire executive officers, department heads, deputies and equivalent up to the maximum of the assigned pay grade. A compensation committee comprising the chief operating officer, chief financial officer, commissioner of human resources, president of council (or designee), and one member of council selected by the body reviewed and acted on exceptions, until it expired one year after adoption of the legislation. Based on Law Department advice, the committee's authority devolved to the commissioner of human resources in March 2013 and all other provisions of the 2012 legislation remained in effect. Since that time, the city has hired 1,216 employees, with 688 (55.6%) hired above the minimum salary and 271 (22.3%) hired above the midpoint.

We randomly sampled 27 of 114 current employees in the general classification plan hired above the midpoint since March 2013 without specific approval by ordinance and reviewed documents in their personnel files. While a few provided justification for filling the position, none documented the reason for the starting salary offered. All were approved by human resources.

Over 16% of promotional increases since fiscal year 2013 appeared to be below the minimum threshold; most that we sampled were public safety promotions in which the steps are less than 5 percent. City code Sec. 114-127 requires the salary increase upon promotion to be no less than five percent of the current salary or the minimum of the new grade, whichever is greater, or one step if applicable. We identified 233 employees who received promotions since July 1, 2012, but appeared to have received a smaller increase than required by code. The differences in new annual salary and calculated minimum required ranged from -$.01 to -$196,735. We randomly sampled 25 of the 233 and selected four outliers to review documents in the personnel files. Of the 29 files that we reviewed:

- 4 appear to have been errors in which the employee received a smaller increase than code requires

- 15 were public safety promotions in which the steps themselves do not align with code requirements
- 6 had a previous salary recorded in Oracle that was higher for working out-of-class prior to the promotion, which affected our calculation of whether the new salary met the threshold
- 4 were not promotions, but were miscoded by the department (1) or by human resources (3) as promotions in Oracle

The department head and/or commissioner of human resources approved all the transactions we reviewed. We provided the four potential errors to the Department of Human Resources for follow-up.

Eight percent of employees appeared to have received individual salary increases above 10% since fiscal year 2013; most that we sampled were upgrades from recruit to officer or temporary transactions for working out-of-class. City code states that "employees may receive an increase in pay based on changes in duties or responsibilities and other qualifying factors which shall not exceed ten percent of their current salary in a given 12-month period." We identified 678 current employees who received individual salary increases greater than 10% during the period July 1, 2012, through March 13, 2015, that were not coded as promotions. More than half of the transactions (58.6%) were coded in Oracle as upgrades. The highest number was in the Police Department, but employees in 18 departments received individual increases greater than 10%, according to records in Oracle. The percentage increases above 10% ranged from 10.02% to 63.8%.

We randomly sampled 25 transactions and selected 6 outliers to review documents in the personnel files. Of the 31 files that we reviewed:

- 1 appears to have been an error in which duplicate salary corrections increased an employee's annual salary by 21%. An email requested the correction and there was no turnaround document associated with the transaction and no approval.
- 4 were approved by ordinance
- 18 were upgrades from recruit to police officer or corrections officer
- 8 were retroactive or temporary increases for working out-of-class

The department head and/or commissioner of human resources approved all the transactions we reviewed except for the potential error, which we provided to the Department of Human Resources for follow-up.

Because Oracle lacks input controls, we reviewed the personnel files of all ten employees who processed salary transactions during our scope. Results revealed none processed individual transactions for themselves. In one transaction, the processor manually changed the amount of increase on the electronic turn-around document after the approvals had been applied. The request was for a 5% increase based on a position reclassification; however the request should have been for about 6% increase to raise the employee to the minimum of the new grade. The manual change increased the employee's salary 5% above the new minimum for an increase of 11.4%. We asked the Department of Human Resources to clarify the intent of the transaction.

We identified an additional 9 leave payouts and one pay advance since January 2010. City Council requested information about financial compensation associated with unused compensatory time, sick, and annual leave payments. According to the chief operating officer's August 27, 2014, presentation to the Finance/Executive Committee, nine city employees received irregular payments for leave and/or compensatory time, or pay advances. We confirmed the amounts and dates of the previously disclosed payouts. We identified differences in how the payments were made and small differences in the amounts paid. We also identified an additional nine then-current exempt employees who received cash payments for compensatory time and one employee who received a payroll advance.

Because the methods of processing the transactions differed, it is possible we did not find all instances. Some of the transactions were recorded in Kronos and passed through to the payroll module in Oracle, some were requested on change sheets and submitted to payroll for manual change in Oracle, some were requested as direct payments through Accounts Payable, and some were requested as advance payment through iExpense.

Of the four employees who received a payroll advance, two have repaid the city and two are on repayment plans.

We also identified payments at separation that aren't authorized in code. In addition to the cash payments for leave to current

employees, we identified 17 payments of compensatory time to exempt employees at separation and two payouts of sick leave at separation. City code makes no provision for these payouts at termination. Code states that there can be a one-time cash payout for unused vacation leave upon termination. There is not a provision for payment for unused compensatory time in the code for exempt employees. If an employee accrues over 30 days of sick time by the end of the last pay period in November, there can be a cash payment for one-fourth of the unused time above the 30 hours. Human resources policy states that the payments must be authorized by ordinance. The council did not authorize payment for unused sick leave during our review period.

All of the city codes we examined contain allowances for payouts of unused leave. All of the cities pay employees for unused vacation on termination. Denver, Kansas City, and Miami allow for partial payouts of sick leave upon separation. Charlotte, Seattle and St. Louis allow for partial payouts of unused sick leave upon retirement. Cleveland code contained no allowances for sick leave payouts. The city codes we assessed did not provide for advance pay. Atlanta code and those of similar cities do not allow for payouts of compensatory time to exempt employees.

In addition to Atlanta, four of the cities allow exempt employees to earn compensatory time, but under more limited circumstances. Atlanta city code Sec. 114-423 (b) states, "Employees exempt from FLSA may be given compensatory time off at the rate of one hour for each hour worked beyond their regularly scheduled work period. Exempt employees are not eligible for overtime pay." Human Resources policy 3.10 states that the decision whether to grant exempt employees compensatory time is at the discretion of the department head. Charlotte code allows for compensatory time if an exempt employee works significantly more than 40 hours in a week. Miami code allows for compensatory time only for exempt employees working on holidays. According to St. Louis code, supervisory-level exempt employees can earn compensatory time when directed by management and approved by the appointing authority to work hours beyond their regular schedules. Managerial-level exempt employees may only be eligible for compensatory time when the Mayor declares an emergency and they are directed to work more than 40 hours in a workweek. Only a few maintenance supervisor job titles that are designated as emergency response exempt employees are eligible for compensatory time in Seattle. Exempt employees in Kansas City are expressly ineligible for compensatory time.

Atlanta's human resources policy limits the number of compensatory time hours an exempt employee may accrue to 160; 10 of the 27 payments we identified were for more than 160 hours.

Some employees used rehire provisions to cash out vacation leave during our scope period. The number of current employees who were rehired after July 1, 2008, was 394, representing 4.8% of the workforce. The time between termination and rehire ranged from 2 days to 10 years. About one-third of rehired employees who were rehired, were rehired within a year. Less than 10% of rehires were separated for less than 2 months. The number of employees rehired was highest in fiscal years 2009 and 2010, possibly to counteract downsizing in fiscal year 2008 (see Exhibit 21).

Exhibit 21 Number of Employees Rehired by Fiscal Year
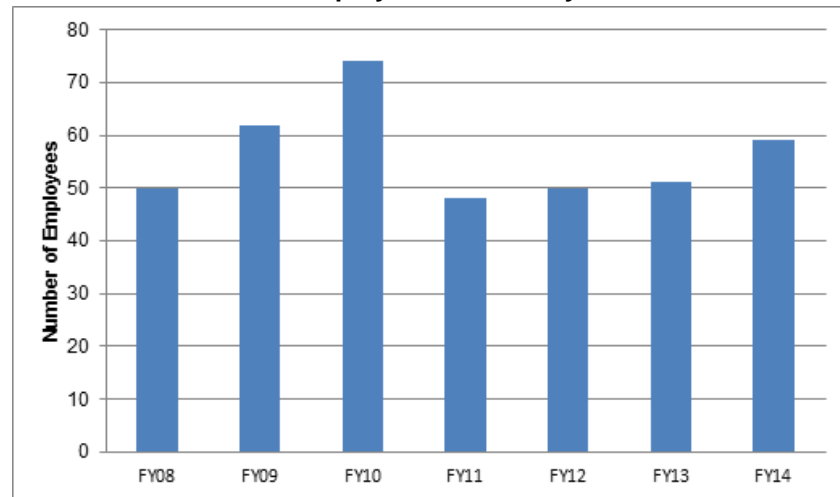
Source: Oracle as of June 2015

To assess whether these employees were taking advantage of a loophole to cash out their vacation hours, we looked further into employees who were hired back to the same organization. About 17% of the employees were hired back to the same organization. The median time between termination and rehire of employees subsequently rehired into the same organization was 305 days. At their separation, 47% received a vacation payout ranging from 1 hour to 611 hours and a compensation of vacation payout that ranged from $25 to $16,022. The average payout was $2,235. The Fire Department rehired their former employees the most frequently with 28 rehires; separation time ranged from 3 weeks to more than 2 years.

The best way for the city to mitigate risks and future liabilities of payouts is to clarify eligibility and to enforce accrual limits.

Recommendations

In order to reduce the potential for internal and external salary inequities, the commissioner of human resources should:

1. Prepare for City Council consideration amendments to the personnel code that:
   - require a market study of benchmark positions be conducted every year with results presented to the City Council before the annual budget proposal
   - establish clear guidance on hiring above the minimum salary

2. Review the compensation structure within salary grades annually across all departments citywide and report the findings to the City Council prior to the annual budget proposal

3. Develop and present a strategy for Mayor and City Council consideration that moves employees to the midpoint of their pay grades

In order to strengthen salary management controls and reduce the appearance of internal inequities, the commissioner of human resources and the chief information officer should:

4. Strengthen Oracle system controls to:
   - reflect base pay separately from time-limited incentive pay, differential pay, bonuses, and work out-of-class
   - standardize and define the list of salary transaction reason codes such that they align with city code requirements
   - comply with salary changes in code

Appendices

Appendix A
Management Review and Response to Audit Recommendations

Report # 15.04	Report Title: Employee Compensation	Date: Sept 2015

Recommendation Responses		

Rec. # 1	In order to reduce the potential for internal and external salary inequities, the commissioner of human resources should:
	
	• Prepare for City Council consideration amendments to the personnel code that:
	  • require a market study of benchmark positions be conducted every year with results presented to the City Council before the annual budget proposal
	  • establishes clear guidance on hiring above the minimum salary
		Partial Agreement – Modified Recommendation

	Proposed Action: Prepare and submit legislation for Council consideration requiring a market study every 2 years. **Implementation Timeframe:** FY16 **Comments:** Best practices suggest a full market study should be done every 2-3 years. It is important to note the FY16 DHR Budget has funding for a study for the first time since FY11. **Responsible Person:** Commissioner Yvonne Cowser Yancy	
Rec. # 2	In order to reduce the potential for internal and external salary inequities, the commissioner of human resources should: • Review the compensation structure within salary grades annually across all departments citywide and report the findings to the City Council prior to the annual budget proposal	Agree
	Proposed Action: Include this review in annual budget presentation. **Implementation Timeframe:** FY16 **Comments:** There is an annual budget personnel paper presentation in FEC and Full Council Budget hearings. This information can be provided at this time. **Responsible Person:** Commissioner Yvonne Cowser Yancy	

Rec. # 3	In order to reduce the potential for internal and external salary inequities, the commissioner of human resources should: • Develop and present a strategy for Mayor and City Council consideration that moves employees to the midpoint of their pay grades	Agree
	Proposed Action: The FY16 DHR budget includes resources for a city-wide market study; this recommendation will be added to the scope of this project. **Implementation Timeframe:** FY16 **Comments:** A recommendation was made in the 2011 Pay and Class Study; however it was not funded due to resource constraints. **Responsible Person:** Commissioner Yvonne Cowser Yancy	
Rec. # 4	In order to strengthen salary management controls and reduce the appearance of internal inequities, the commissioner of human resources and the chief information officer should: • Strengthen Oracle system controls to: • reflect base pay separately from time-limited incentive pay, differential pay, bonuses, and work out-of-class • standardize and define the list of salary transaction reason codes such that they align with city code requirements • comply with salary changes in code	Agree
	Proposed Action: As AIM prepares to upgrade our current outdated Oracle system ensure the scope of the pending RFP includes these requirements so the new technology platform has improved controls. **Implementation Timeframe:** TBD **Comments:** AIM is currently making plans for the long awaited oracle upgrade, when this process moves forward DHR will include these requirements in the scope documentation. **Responsible Person:** Chief Information Officer Saini and Commissioner Yvonne Cowser Yancy	