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Chief Executive Officer

September 30, 2014

To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

REPORT BACK ON THE MANAGEMENT APPRAISAL AND PERFORMANCE PLAN REDESIGN (ITEM NO. 50-B, AGENDA OF APRIL 15, 2014)

On April 15, 2014, a motion by Supervisor Ridley-Thomas and Supervisor Knabe directed the Chief Executive Officer (CEO) to report back in writing with:

1. A Countywide assessment of outstanding Management Appraisal Performance Plan (MAPP) compensation issues, including salary inequities, by County department as a result of the Board-approved MAPP changes in 2007;

2. Potential actions that could be taken to resolve the identified issues; and

3. Potential adjustments to compensation that would be required to implement any new changes recommended as a result of the Department of Human Resources (DHR) and CEO MAPP redesign efforts targeted for completion in October 2014.

On June 13, 2014, the CEO requested an extension to September 30, 2014, to fully assess the effectiveness of the current plan.

BACKGROUND

On April 1, 2007, the Chief Executive Officer, with the support of the Board of Supervisors, implemented several changes to MAPP to improve the overall performance management value of the Plan. Some of the changes related to the compensation component of the Plan included:

- Adjusting the salary ranges of multiple classifications to create appropriate differentials between levels,
- Standardizing promotional salary placements for consistency countywide,
- Creating special provisions to address superior-subordinate salary differentials and out-of-class assignments, and
- Assigning the overall responsibility for the compensation aspects of the Plan to the CEO to streamline the day-to-day administrative processes.

In addition, the 2007 MAPP changes streamlined merit review procedures and created a two-tier compensation structure: Tier I for department heads and executive managers, and Tier II for middle managers. These changes were established to improve the process for merit salary adjustments. The majority of MAPP participants were placed in Tier II, which allowed eligible participants to receive annual merit adjustments on an 18-step pay range. However, due to the recent recession, merit salary adjustments were suspended from 2009 to 2012 for Tier I and 2010 to 2012 for Tier II. Consequently, the suspension did not allow the full implementation of the 2007 MAPP changes designed to improve the performance based incentive of the Plan.

COUNTYWIDE ASSESSMENT OF ISSUES

Internal Audit

Our Countywide assessment of issues started with an internal audit of the participants assigned to MAPP. First, we focused on MAPP participants as a whole to assess the overall status of the current Plan. Second, we reviewed each participant to identify specific compensation issues. Finally, we analyzed our findings to determine any negative effects resulting from the 2007 MAPP changes.

As of August 15, 2014, there were 1,164 MAPP participants with an average salary near the salary midpoint (Control Point) and approximately five years of service in their current classification. These figures do not indicate any significant issues with the overall compensation levels of the current Plan.

Since the MAPP changes were implemented in 2007, the CEO has processed over 840 promotional salary placements and over 130 salary placements for new hires. Over that time period, the average promotional increase for a MAPP employee was between 9 percent and 11 percent with approximately 60 percent of participants receiving a minimum promotional increase of 5.5 percent (plus step placement for Tier II). Employees promoted from within were placed on average 32 percent into their salary range as opposed to new hires that were placed on average 45 percent into their salary range. Given the unique set of circumstances that every salary placement represents, we have been consistent in our salary placement decisions while still allowing the County the flexibility to make a competitive offer as needed.

Retaining the most experienced and knowledgeable employees is an important goal of any successful organization. When the 2007 MAPP changes were implemented, the intent of the new compensation structure was to allow MAPP participants to progress through their salary range in order to ensure that employees were being compensated equitably with their years of experience in a position. Due to the recent recession, the County was unable to consistently reach this goal. As a result, there are 65 participants (6 percent of the MAPP population) that have held their payroll title for over five years, but are still compensated at a base salary that is less than 35 percent into their salary range. Of those 65, there are 10 participants that have held their payroll title for over 10 years, but are still compensated at a base salary that is less than 35 percent into their salary range. This issue is a direct result of the suspension of merit salary adjustments and would have been avoided if not for the recent recession.

Another indicator of an effective compensation plan is whether there is an appropriate salary differential between a supervisor and his/her highest paid subordinate. Currently, CEO policy limits superior-subordinate bonuses to situations where a supervisor's base salary is less than 2.5 percent above the base salary of their highest-paid subordinate. Our review found that there are 48 participants (5 percent of the MAPP population) that are currently receiving a superior-subordinate bonus. Most of the participants who are receiving this bonus are a result of special situations where their highest-paid subordinate is an experienced County employee compensated at or above the control point of their position. Additionally, approximately half of the participants who are receiving this bonus are as a result of compression with a non-MAPP subordinate. As stated previously, some of these issues were a result of the recent suspension of merit increases.

The findings of our internal audit did not reveal any negative effects resulting from the 2007 MAPP changes. However, the recent recession and the subsequent suspension of merit salary adjustments perpetuated some issues that the changes were designed to correct. Without a consistent application of the current Plan, it is difficult to fully evaluate the true effect of the 2007 MAPP changes.

<u>Countywide Survey</u>

In addition to our internal audit, the CEO surveyed all County departments in order to identify any general or specific issues that are directly related to the compensation component of MAPP, as well as any deficits directly tied to the 2007 MAPP changes. Each department was also asked to provide an overall satisfaction rating of the current

MAPP program, and to make recommendations on improving the effectiveness of the Plan with an emphasis on employee motivation and performance.

Over half of the departments surveyed stated that they were satisfied with the current MAPP program. The primary concern raised by the majority of departments was their frustration with the suspension of merit increases which created multiple compensation issues. The most common issues identified were:

- Experienced MAPP managers are compensated less than newly promoted MAPP managers,
- Tier I participants are compensated less than Tier II participants, and
- MAPP employees are compensated less than non-MAPP employees who were allowed to progress through their salary range during the recent recession.

The design of the MAPP structure includes salary ranges that overlap within a management hierarchy. The intent of this design was to create flexibility for the County to recruit new managers, as well as provide incentives for exceptional performance. To avoid the issues described above, the CEO reviewed the management organizational structures prior to the implementation of the 2007 MAPP changes and with the approval of the Board, modified the salary ranges of multiple MAPP positions. However, due to the overlapping nature of the ranges, it is possible that a lower-level employee may be compensated at a higher salary rate than their supervisor. In these cases, the CEO has approved superior-subordinate bonuses to address the salary compression issue.

Another issue identified by multiple departments pertained to some new hires being placed at a higher salary than current MAPP employees. The CEO is committed to ensuring that salary placements of MAPP participants are made in a consistent and equitable manner. It is CEO policy to review all MAPP new hire and promotional salary placements and as part of our review, we consider the following factors:

- Current salary
- Percent increase
- Placement within the salary range
- Salary of superior and subordinates
- Cohort salary
- Work experience
- Past precedent

However, many of these factors are highly variable. For example, reporting relationships or job functions change, peers retire or promote to higher levels, and employees gain experience or acquire new skills over time. It is not practical in terms of process to analyze all these factors on an ongoing basis for every MAPP participant and adjust salaries for equitability. However, the CEO will continue to investigate and address salary inequities on a case-by-case basis.

Twenty-nine participants were identified in the survey as having a specific compensation issue. Most of the issues identified were specific examples of one of the general issues described and addressed above. The one issue that needs further explanation is salary compression between a manager and his/her highest-paid subordinate. To qualify as a compensation issue, the following conditions must be met:

- Both the department head and the CEO find that the supervisor is qualified to exercise, and is in fact satisfactorily exercising, for a substantial portion of his/her time both administrative and technical supervision over the subordinate;
- The organization is a permanent one that has been approved by the CEO;
- Both of the supervisor and the subordinate have been appointed to full-time, permanent positions; and
- The classification of both the supervisor and the subordinate is appropriate to the organization and to their duties and responsibilities.

The specific issues identified in the survey do not meet these standards. It is CEO policy to enforce these standards, to ensure that additional compensation for special pay situations, are being approved as intended.

The primary issue that departments linked to the 2007 MAPP changes was the two-tier structure that created different guidelines for the two management populations. The current classification system allows for certain positions to be placed in either Tier I or Tier II based on the reporting structure within the organization. For example, some Administrative Deputies are in Tier I due to the fact that they report directly to the Chief Deputy. Other Administrative Deputies are in Tier II due to the fact that they report to a Deputy Director which places them lower in the organization. Some departments felt that the Tier II participants were treated better than their Tier I peers as Tier II received salary increases in 2009 when the Tier I increases were suspended. Other departments felt that Tier I was more advantageous in that 0-5 percent salary increases provided a greater incentive for outstanding performance as opposed to the flat percentage rates offered in the Tier II salary structure.

RECOMMENDED ACTIONS

Based on our internal audit, the Countywide survey, and the intent of the 2007 MAPP changes, we have determined that there are no major issues with the general compensation structure of the MAPP program. The recent recession and the subsequent suspension of merit pay had a significant impact on the compensation structure. Our recommendation is to allow the Plan to operate as intended and reassess its effectiveness after a few years. This will allow the County the time necessary to analyze data and assess the overall effectiveness of the MAPP program.

The CEO will report back with recommendations to adjust the compensation structure as it relates to performance, specifically for employees who do not receive a performance rating of "Met Expectations" or higher in their annual evaluation.

If you have any questions or need additional information regarding this matter, please contact Maryanne Keehn at (213) 974–0470, or via email at mkeehn@ceo.lacounty.gov.

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