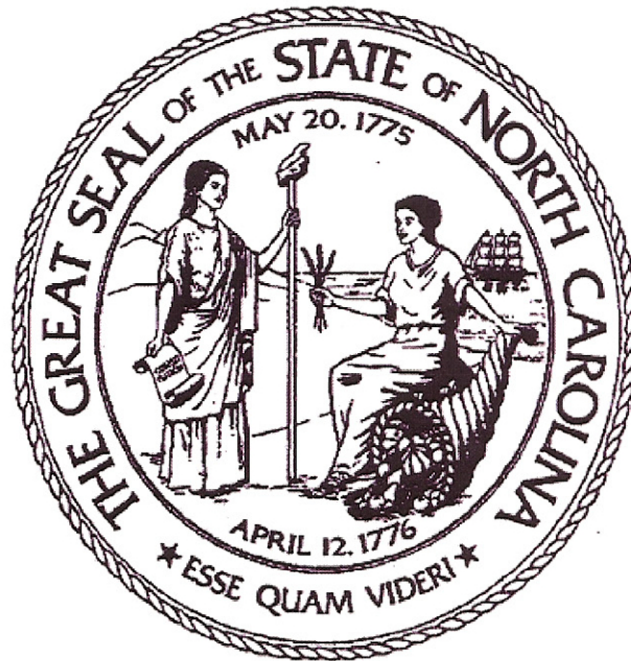


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## **Report on the State of Personnel Management and Career Banding in the State of North Carolina**

**Prepared for the  
Government  
Performance Audit  
Committee**



**FOX LAWSON & ASSOCIATES LLC**  
COMPENSATION AND HUMAN RESOURCES SPECIALISTS

**January 2008**



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January 22, 2008

Mr. John Turcotte  
General Assembly of NC  
State of North Carolina  
300 N. Salisbury St., Room 206-B  
Raleigh, North Carolina 27603

**RE: Review of State Personnel Practices and Career Banding**

Dear Mr. Turcotte:

Included in this document is the draft final report of our assessment of selected human resource practices and an analysis of career banding in North Carolina.

Our assessment is based on:

- Review of current personnel policies and practices.
- Review of quantitative data regarding personnel practices and their effects.
- Review of best practices used throughout other state and local governments in managing personnel and compensation issues in particular.
- Conclusions based upon group and individual interviews with agency directors and deputies, university chancellors, operating managers and employees, including representatives of the major employee associations, as well as Human Resource Directors in a variety of large and small agencies and universities throughout the state.
- Interviews of the staff in the Office of State Personnel.

We appreciate having the opportunity to assist the State of North Carolina in conducting this study. Should you have any questions regarding our findings, conclusions and recommendations, please contact either Bruce Lawson at (602) 840-1070 or me at (651) 635-0976 ext. 12.

Very truly yours,

A handwritten signature in dark ink, appearing to read "J. C. Fox", with a stylized flourish at the end.

James C. Fox, Ph. D.  
Chair

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## EXECUTIVE SUMMARY

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The State of North Carolina General Assembly's Government Performance Audit Committee (GPAC) engaged Fox Lawson & Associates, LLC (FLA) to conduct an independent performance review of the personnel system and specifically, the career banding system with recommendations for legislative consideration.

### Approach

FLA reviewed relevant statutes, laws and practices relative to North Carolina's career banding and personnel practices and procedures as well as research studies, manuals, and other material analyzing personnel practices in general and career banding specifically. Representatives of the GPAC, 18 agency/university HR directors, and Office of State Personnel (OSP) staff were interviewed. Focus groups totaling approximately 300 individuals from across the state representing a cross-section of agencies/universities were held with employees, managers, agency HR directors, agency directors, as well as university chancellors and HR directors. FLA also collected quantitative data, as available, to provide comparisons.

### GPAC Questions Posed and Summary Responses

1. **A review of organizational reporting relationships, delegation agreements, and degree of independence or centralization within the human resources system structure and the authority of the State Personnel Commission.**

Currently OSP has authority to provide policy development, rule making, training, maintaining personnel information and data, providing approval of personnel actions, negotiating the decentralized authority to agencies/universities and implementing corrective action for cases of noncompliance. For the most part, this has worked as well as might be expected in a large complex government operation. The decentralization of personnel actions requires three essential elements: trained human resources personnel in the agencies/universities, a system to audit and review the actions of the agency/university, and information for the PMIS system. The right to rescind the delegation of authority needs to be strengthened to allow the OSP to take back the authority if the agency/university is found to be out of compliance with the proper

administration of Chapter 126 and policies of the State Personnel Commission and/or their program has been found to be ineffective. We encourage decentralization of personnel practices if the audit function is strengthened. Further, we believe that there should be a dotted line relationship between the OSP Director and the HR director in the agencies/universities, to ensure consistency. However, we encourage the centralization of some training programs, statewide coordinated recruitment process and technology, and benefits administration. These are high cost areas where efficiencies can be achieved through centralization of resources, focus and process.

- 2. A review of the Chapter 126 of the General Statutes (State Personnel System) as it exists and recommendation for potential changes that enable an effective human resources culture and high performance workforce.**

Changes to Chapter 126 to improve the operation of the state personnel system have been included in the Appendix. (See pages 141 through 146 that compare the current law to proposed changes). These changes have been reviewed and approved by OSP, SEANC, local government and agencies, but have not been acted upon by the General Assembly. We encourage adoption of these recommendations.

- 3. Recommendation for improving cost forecasting for executive budgeting and appropriation of salary and benefits by the General Assembly.**

Cost forecasting is currently complicated by the restrictions on lapsed funds, in-range adjustments, range adjustments and across the board adjustments. These are symptoms of a process that has piecemealed compensation based on the problem that causes the most pain at the time. The process should not be so difficult, but it requires a realistic assessment of the labor market. The current classification system does not make that easy, since the classification system have been so altered and manipulated over the years, that it is not clear where the State's rate of pay is for every occupational group. Our best assessment is that the State is paying, on average, about 7% below the competitive market. The implementation of career banding clarified the relation of pay to the market and it has made it easier to assess the pay impact of the current forecasting process.



Cost forecasting should be straightforward and direct. We recommend that the General Assembly receive a recommendation of labor market movement and performance based increases from the Office of State Personnel. They may use several sources, including projections from private companies (whose projections are typically within 2 tenths of a percent of each other), or from an assessment of the market changes from year to year of their benchmark classes, or by making projections from the Employment Cost Index published by the U. S. Department of Labor. This will provide the State with an estimate of the amount that the market has or will move, depending on if the State wishes to lead or lag the market. This percent (or some other number that the General Assembly believes is appropriate given economic conditions of the State) should be applied to each agency/university current midpoints of the current grades for each of the traditional classes, or the middle salary for the journey level among Career Banded jobs, including any lapsed funds) for the number of authorized positions of the agency/university to determine the salary amount that should be appropriated. Agency/university leadership should then be held accountable for proper expenditure of the funds up to the limits established and within the current guidelines, policies, procedures, restrictions and rules in place for their respective occupations.

4. **Recommendations for State Policies, including but not limited to those related to BEACON, for attaining accuracy, tracking and integration of other salary and compensation information for appropriations for salaries and benefits and other entities where compensation is exempt from Chapter 126 of the General Statutes but set or predominately financed by the state.**

According to the Office of the State Controller, (OCS) BEACON is a software package that will track and integrate compensation, benefits and other human resources information from all agencies throughout the State for later retrieval and analysis. It will replace PMIS with faster, more accurate and more easily accessible data in a common format.

As the BEACON initiative is currently envisioned, nine of the sixteen universities will eventually be utilizing the standard applications. As a result, production of statewide HR reporting will continue to require the combination of data from fragmented sources to incorporate much of the university data. However, the consolidation process may be more

automated under BEACON than is the case currently thereby making the data more contemporary.

The State should require that all universities not using BEACON download their data in a timely fashion (at least monthly) to BEACON so that one data base exists to allow for State wide analysis of data.

BEACON will also allow the State to implement more effective analysis of employment trends and patterns and allow OSP to improve the auditing of processes that have been delegated to agencies/universities.

BEACON also will enable the State to automate and centralize the recruitment process through on-line recruiting. This should be a centralized function as noted elsewhere in this report.

**5. Recommendations to improve effectiveness of all human resources functions including but not limited to the following:**

- a. How North Carolina state government can improve its overall personnel system and human resources system given contemporary science and standards determined by the consultant.**

Currently, the State is using an ineffective 70-year-old classification system that serves neither the State nor its employees. In addition, the State does not have contemporary practices in place that will allow the State to quickly hire the right employees who are capable of performing the work that needs to be done. Its promotion policies do not reward competent performance; rather it rewards long-term service. Training and regrowing the workforce are considered in some departments as a luxury, rather than a necessity. As a consequence, some occupations are less well trained than the personnel in private sector companies that they are asked to regulate and/or monitor. Recognizing these issues, and looking forward to the possibility that there will be fewer workers in the workforce, OSP investigated a new program call career banding. The intent of this program was to shift the paradigm, from reactive management to proactive management of personnel. Career banding enables the State, and gives its managers the tools to change how it recruits, classifies, promotes and pays its personnel. Further, it enables managers to critically examine their operations



to determine if they have the right number of employees at the right costs to meet the needs of their constituents. As a result of the change, it has caused some sectors to question if this is the right path for the State. From our perspective, if the State is interested in overcoming the cumbersome practices that it currently has to manage pay and personnel, and is interested in determining what it should do in the future to proactively address the personnel issues of the future, career banding is perhaps the best program that can be envisioned at this time. Therefore, the State should require the implementation of Career Banding for all occupational groups. This system integrates workforce planning, recruitment, selection, hiring, performance management, talent management and compensation in a manner that, if implemented correctly, will transform and improve the overall management of personnel in the State. Such a system should be part of the delegated authority of OSP to the agencies/universities, with the oversight and final approval by OSP regarding implementation decisions.

Currently hard costs of recruiting (e.g., advertising and related expenses) cost the State in excess of \$29 million per year.<sup>1</sup>

Recruiting process and technology should be coordinated statewide with the implementation of BEACON and other web based tools. The State may start such a process with hard to recruit positions and expand to others as the process is refined. The implementation of a centralized recruiting process and system is estimated to save approximately \$15 million in reduction of hard cost expenses (specifically advertising costs in each department and miscellaneous expenses) and will result in a greater number of applicants.<sup>2</sup>

Training should be centralized through the better utilization of the university resources available to the State.

Mandatory mediation should be required to handle grievances.

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<sup>1</sup> Estimate from OSP based on average cost per hire including hard costs of advertising, travel costs, recruiter time and miscellaneous expenses for replacement of approximately 10% turnover.

<sup>2</sup> Estimate based on professional judgment incorporating best practices information and hard data from footnote above.

- b. **How to assure strategic workforce planning to assure sufficient policies and plans for enhancing attraction to state service, recruiting for immediate employee needs, and retaining a solid workforce to respond to immediate, intermediate, and long term human resources needs of the State of North Carolina.** GPAC received reports of concerns about loss of and failure to “re-grow” institutional knowledge stemming from increasing retirement of state employees in professional categories including financial, health care, technology, human resources, and general program management in addition to senior front line employees who perform critical support functions.

**On-line Recruiting** – The applicant pool is not as large as it could be primarily because applicants do not favor hand written applications nor do they want to apply for jobs at each agency/university that has an opening that matches their competencies. To improve the applicant pool, enable on-line application services available to all for any positions available within State government. eRecruitment, part of the BEACON implementation, should greatly enhance the State’s technological capabilities to achieve this.

**Recruitment/Promotion** - Currently, the graded classes depend on years in service as evidence of eligibility for promotion. This promotes and rewards seniority, not competency to do the work. It is an inefficient way to make the best use of the existing employee talent. Revise the recruitment and promotion program to focus on demonstrated competencies, as opposed to reliance on years of service and seniority as the requirement for hire or promotion. Career banding procedures give managers the capability to make this change.

**Increase Applicant Pool** – Agencies/universities advertise the full range of pay, when in fact, they have limited capability to hire at the rates advertised. This leads to false expectations on the part of the applicants and potential negative perceptions of the State as an honest employer. Further, when faced with a highly competitive labor market (such as for nurses) the State is not allowed to use hiring incentives to obtain needed employees. The

cost of hiring incentives can sometimes be less expensive than a position that is not filled, or filled by an inadequately prepared employee. Advertise realistic hiring rates that are market competitive and use on-line and national job postings, particularly for hard-to-recruit positions, and allow the use of recruitment and retention bonuses, moving allowances, etc. that have been proven successful in other organizations for special situations.

**Public Perception** – Job applicants are often times unaware of the variety of occupations and challenges that exist in government service. This is because the State takes no initiative to promote itself as an employer of choice. Frequently, employees must aggressively search and find State employment opportunities. Private sector employers make the process of applying for jobs easy by employing on line applications, and the use of on line web based job sites, such as Monster.com, Career Builder and Hot Jobs. Engage with media and employ other marketing approaches to raise awareness about the significance, competitiveness and challenges of State service.

**Budgeting Process** – The State has consistently paid below market competitive rates, making it sometimes difficult to fill needed positions. Further, the current rules severely restrict the use of lapsed salary funds to give agencies more flexibility to adjust salaries for critical jobs. Consistent with Section 126-7, (which states that “a. It is the policy of the State to compensate its employees at a level sufficient to encourage excellent performance and to maintain the labor market competitiveness necessary to recruit and retain a competent workforce. To this end, salary increases to State employees shall be implemented through the Comprehensive Compensation System based upon the individual performance of each State employee.” and

“b1. The Comprehensive Compensation System shall consist of the following components: (i) the career growth recognition award, (ii) the cost of living adjustment, and (iii) the performance bonus. The career growth recognition shall be the primary method by which an employee progresses through his or her salary range and shall be awarded annually to employees who qualify for the award.”) The General Assembly should budget positions at the market compensation rate and allow agencies the flexibility to use lapsed

salary funds such as is currently allowed in the universities. Amend Section 126 to allow for the use of lapsed salary funds for recruitment bonuses, moving expenses or retention incentives, as necessary to attract and retain high performing personnel or high demand skills.

**Strategic Workforce Planning** – Currently, most agencies/universities do not engage in workforce planning because the effort to change the structure of the classifications and pay is too onerous. It is easier to leave such questions for a later time, which never seems to occur. This lack of current and future assessments may not be the most effective way to meet current or future State needs. To encourage agency/management to take an introspective look at the way they do business and the talent needed to perform the work, we recommend that the State continue the implementation of career banding to encourage more focused workforce planning. This process forces managers to conduct a critical assessment of their personnel needs.

**Overlapping Term of Service** – Currently, State regulations permit only a limited overlap in service to permit knowledge transfer from an outgoing employee to a new one. This severely limits that ability of a new employee to “come up to speed” on their job and permits the loss of institutional knowledge. This practice may appear to save money but it severely impairs the ability of the State to deliver seamless service when an employee leaves. We recommend that the State permit longer overlapping terms of service to provide for knowledge transfer. Further, we recommend the removal of the 6-month restriction on returning to work for the State following retirement, under a “retraining” situation.

**Retirement** – When a person retires, they take with them years of knowledge, skills and history. Often times an employee would like to continue to work but at a lower time requirement. Approximately 13% of private companies have implemented a phased retirement program to provide for a more orderly retirement and to retain institutional knowledge so that it can be transferred to new

employees.<sup>3</sup> We recommend that the State permit phased retirement options to maintain the knowledge base and facilitate knowledge transfer.

**Career Banding** - as applied in North Carolina, is the most effective method currently available in human resources that will seamlessly integrate workforce planning with the recruitment, hiring and selection of needed employees in the short and long run.

- c. **Training and development of employees at all levels and the extent to which there should be more statewide training programs offered by a central training and executive development program to complement training offered by individual state agencies exclusively to their employees. The consultant should identify best practices within agencies or by educational institutions that could be used as models or scaled up to accommodate the state employee community.**

The State currently has an enormous resource available to it for training and upgrading its workforce: the State universities and colleges. This resource is currently not adequately used to identify occupational training programs to train and retrain its workforce. Agency management often does not allow employees to be trained, nor in some cases does the State pay for professional certification. Best practices in industry suggest that a minimum 2.2% of salary should be devoted to training.<sup>4</sup> It is not possible to identify how much the State now spends. The State should require at least 2% of each agency/university personnel budget should be devoted to training. Mission critical employees should be required to obtain 20-40 hours of training each year, or 60-120 hours every three years, related to their job. Consideration should be given to extending university on-line and other educational resources to agencies to meet training needs. E-learning should be embraced, facilitated by universities and integrated into the career development program of every State employee. With career

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<sup>3</sup> The Aging of the U. S. Workforce: Employer Challenges and Responses, Ernst & Young, January 2006

<sup>4</sup> American Society for Training and Development, "State of the Industry in Leading Enterprises", 2006.

banding, the State will have the information available to identify the competencies and training that is needed to develop a coordinated approach. At the very least, resources should be made available to allow employees to retain and achieve needed licenses and certifications of their profession. Specific attention should be given to personal safety training for employees at risk from custodial populations. OSP should facilitate the identification of specific training solutions to address HR issues with each agency.

For example, OSP should continue to provide training in the general areas of:

- Management and supervisory skills
- Performance evaluation
- Equal employment opportunity
- Customer service
- Certified Public Manager program

These courses should be mandatory for supervisors and managers, and may be augmented by additional departmental training for specific agency applications and situations.

- d. **Improving basic functions of position classification and reclassification, recruiting, selection, compensation, discipline, termination, separation, and appeals.** However, the consultant should not conduct a detailed management or process oriented review of such functions, but instead determine if basic functions should be continued as operated, improved, or discontinued if there is a cost-effective alternative.

**Classification** - We advise the State to abolish the current classification system. It is not repairable, does not assist the State to achieve its objectives in the near or long term, and is more costly to that State in terms of pay increases, managerial and employee time and Office of State Personnel oversight than career banding. The system is obsolete, and needs to be replaced. Career banding should be implemented to replace the current system.

**Recruiting** - eRecruitment, and other web-based solutions should be integrated as a statewide system of recruiting, selecting and

hiring personnel for all agencies throughout the State. The number and quality of the applicants will increase substantially.

**Compensation** - The State has not funded the compensation system according to Chapter 126. Chapter 126 states “(a) It is the policy of the State to compensate its employees at a level sufficient to encourage excellent performance and to maintain the labor market competitiveness necessary to recruit and retain a competent workforce. To this end, salary increases to State employees shall be implemented through the Comprehensive Compensation System based upon the individual performance of each State employee.” and

“(b1) The Comprehensive Compensation System shall consist of the following components: (i) the career growth recognition award, (ii) the cost of living adjustment, and (iii) the performance bonus. The career growth recognition shall be the primary method by which an employee progresses through his or her salary range and shall be awarded annually to employees who qualify for the award.”

Consequently, this has forced managers to sometimes hire poorly qualified employees, or seek out alternative ways to reward good employees, such as through in-range adjustments, reclassification requests and other techniques. Often times these practices are seen as “gaming the system.” The State could significantly reduce these practices by funding the currently authorized compensation programs at a level that is consistent with market competitiveness and sound human resource practices.

**Discipline/Termination/Separation/Appeals** – Currently, the process of discipline/termination/separation and appeals is costly, time consuming and adversarial. It could be argued that such a process does not serve the employees or the State very well. Progressive organizations have adopted a mediation process that is considered less adversarial. Some agencies have used this approach and found it to be more effective for correcting an issue early. Further, the process is quicker, more respectful of the employee and far less costly to the State than the current process. We recommend that the State adopt a mandatory mediation policy for all grievances and potential separations. This would not



eliminate the grievance process, but would be a step prior to legal action.

6. **The primary purpose of the project is to evaluate the overall personnel system and to identify needed improvements. Career Banding is to be evaluated in the context of the system-wide review. The evaluation of the Career Banding component shall include but not be limited to:**

- a. **A historical review of Career Banding as implemented outside North Carolina including references and web links to professional literature about its applicability to state government.**

Career Banding has been in existence in state government since 1996. No other state implements career banding in the same fashion that the State of North Carolina does, therefore there are no other models to compare the State to because the process used by the State is a more complete and thorough process. Most other states have simply modified the salary range, but have not incorporated competency assessment as the State has. We believe that it may be the only process at the present time that will meet the State's need for identifying the right number of employees, performing the right tasks at the right level of compensation. No other classification or compensation system integrates all these aspects into one consistent system. The State would be wise to proceed with its implementation as fast as it is possible, given the current staff.

- b. **A critical analysis of Office of State Personnel Career Banding policies and procedures including but not limited to identification of strengths and weaknesses.**

The State has implemented the Career Banding system of classification and compensation that is more complete and integrated than any other in the country. Procedures are in place to handle all personnel transactions with the appropriate oversight and controls by the OSP. Its full implementation should be continued.

Its weaknesses are that it is new and employees and managers have to adjust to new rules and procedures. That is not a fault of the system, but a change management issue. It can be overcome.

**c. How to assure that agencies do not abuse Career Banding to escalate state salary costs without legislative authorization and budgetary control.**

The current system of legislative authorization for salary increases under the traditional classification system does not contain salary increases. We found that the current classification and compensation system costs the State more in salary increases than Career Banding. The procedures in place for Career Banding control potential salary abuse whereas the current graded system has not. Average salary increases under career banding have been about half of the average increases under the traditional system (\$1,236 for career banded classes and \$2,365 for traditional classes).

**d. A summary conclusion by the consultant concerning whether Career Banding should or should not be continued in North Carolina**

Career Banding should be implemented throughout all but a few public safety positions in the State. Corrections officer classes may not be appropriate for career banding.

**e. Any changes to the current Career Banding system recommended by the consultant if the consultant concludes that Career Banding should be continued.**

We are of the opinion that the current format and process of career banding is one of the most well thought out and cohesive programs in the country. It should be implemented as quickly as it can be done. There are, however, areas that could be improved, specifically:

**Consistent Pay Policy** – Currently the State has one pay policy for teachers, but at a different policy for State employees. For teachers, the policy is to pay at market competitive levels. For State employees, there is no such policy. This is inconsistent. The State should adopt a consistent pay policy and pay in accordance

with its policy.

**Pay Consistency** – Currently, under Career Banding, the same job may be paid a different rate in different agencies because of need. This is inconsistent with the State being one employer, and makes each agency a competitor with all other agencies. There should be pay consistency among agencies for similar jobs. Pay consistency should be defined as within 10% of median pay levels. The State should be perceived as “one employer” rather than having separate pay practices (pay levels) for each agency.

**Oversight and Approval** – With any new program, it is important that the same rules apply to all employees. Until career-banding implementation is complete, OSP should continue to provide oversight, guidance, and approval of career banding agency and university efforts.

**Performance and Competency Linkage** – Currently, the performance evaluation instrument and the competency assessment tools have different scales. This is confusing and requires a cross walk from one to the other. It should be simplified. OSP should link the performance appraisal rating scale with the competency assessment ratings.

**Evaluation and Assessment** – Even though career banding has been in place in the State for a number of years, the experience base has been minimal. With any new program, it should be assessed with objective data. While an attempt has been made in this report to provide that data, the PMIS does not capture it, or it is in a form that is not accessible. With BEACON, this should be remedied and data should be more easily accessible on performance criteria that we have used in this report. The General Assembly should audit the implementation of career banding two years after the last occupational group has been banded, with a specific focus on its effects, costs, management resources required, consistency of application and impact on workforce quality, in comparison with the current graded classes. Measures of turnover, recruitment quality, grievances, compensation, should be obtained for the graded classes and new data on the career-banded classes should be collected to assist in the comparison effort.

- f. Any creative alternatives to Career Banding that may be recommended by the consultant along with potential strengths and weaknesses. Alternatives to Career Banding should be explored and reported even if the consultant recommends continuation of Career Banding.**

Career banding is at the peak of refinements of currently available progressive classification and compensation techniques. There are no other practices that are better than Career Banding for implementation of a cohesive, consistent program to enable the right number of the right employees to be hired, doing the right things for the right amount of money. Skill based pay does not achieve each of these objectives as well as career banding, consolidating titles or broadbanding will not accomplish these objectives and incentive pay programs or pay for performance programs alone will not solve the State's talent management concerns.

The State should require that Career Banding be implemented and should fund the pay levels to assure its success. The salary cost to the State to achieve market parity is estimated to be approximately \$350 million in additional salary and benefits costs. This is approximately 7% of the total salary and benefits budget for State Personnel Act employees.

- g. Suggested timetables for implementation steps for recommendations and what state offices should be responsible for any future actions related to Career Banding or alternatives to Career Banding recommended by the consultant.**

OSP believes that career banding can be implemented in all occupational groups within 3 to 5 years. This will require OSP leadership, training, guidance and oversight. It will also require dedicated support and time from agency management and agency HR professionals if this process to be successful. The process should be required. Estimated cost for implementation of salary adjustments that will be required is \$350 million over three years.

## OVERVIEW OF STUDY

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### Purpose

The State of North Carolina, through the Government Performance Audit Committee (GPAC) of the General Assembly, was interested in having an independent performance review of the personnel system including recommendations for legislative change. Initially the GPAC was interested in the career banding system that has been partially implemented in the State. Further implementation of the career banding system had been suspended by legislative mandate, pending the outcome of this analysis. However, in the final days of the 2007 session, authority was granted to the Universities to continue with career banding, and authority was granted to the Office of State Personnel (OSP) to continue with the career banding development of additional occupations. This report addresses the issues that have been raised regarding career banding.

The second interest of GPAC was to determine if the State was managing its human resource processes and procedures in the most cost effective and efficient manner to enable a high performance and capable workforce.

Specifically, the State asked for the following:

- An evaluation of implementation of career banding in the State of North Carolina including but not limited to:
  - A historical review of career banding as implemented outside North Carolina including references and web links to professional literature about its applicability to state government. This issue is addressed on pages 23-35.
  - A critical analysis of Office of State Personnel career banding policies and procedures including, but not limited to, identification of strengths and weaknesses. This issue is addressed on pages 42-69.
  - How to assure that agencies do not abuse career banding to escalate state salary costs without legislative authorization and budgetary control. This issue is addressed on pages 65-66.
  - A summary conclusion by the consultant concerning whether career banding should or should not be continued in North Carolina. This issue is addressed on pages 91 - 92.

- Any changes to the current career banding system recommended by the consultant if the consultant concludes that career banding should be continued. This issue is addressed on pages 91-92.
- Any creative alternatives to career banding that may be recommended by the consultant along with potential strengths and weaknesses. Alternatives to career banding should be explored and reported even if the consultant recommends continuation of career banding. This issue is addressed on pages 91-92.
- Suggested timetables for implementation steps for recommendations and what state offices should be responsible for any future actions related to career banding or alternatives to career banding recommended by the consultant. This issue is addressed on page 93.
- Recommendations to add to or change existing North Carolina statutes if necessary to implement any consultant recommendation. Recommendations that may result in cost increases must be accompanied by cost estimates specifying new positions required, existing positions eliminated, sources of funding and a timetable for recommended actions. This issue is addressed in the Appendix.
- How North Carolina state government can improve its overall personnel and HR system given contemporary science and standards determined by the consultant:
  - How to assure strategic workforce planning to assure sufficient policies and plans for enhancing attraction to state service, recruiting for immediate employee needs, and retaining a solid workforce to respond to immediate, intermediate, and long term HR needs of the State of North Carolina. GPAC received reports of concerns about loss of, and failure to “regrow”, institutional knowledge stemming from increasing retirement of state employees in professional categories including financial, health care, technology, HR, and general program management in addition to senior front line employees who perform critical support functions. This issue is addressed on pages 77-82.
  - Training and development of employees at all levels and the extent to which there should be more statewide training programs offered by a central training and executive development program to complement

training offered by individual state agencies exclusively to their employees. The consultant should identify best practices within agencies or by educational institutions that could be used as models or scaled up to accommodate the state employee community. This issue is addressed on pages 84-87.

- Improving basic functions of position classification and reclassification, recruiting, selection, compensation, discipline, termination, separation, and appeals. This issue is addressed on pages 77-92.

## **Study Methodology**

Fox Lawson & Associates, LLC (FLA) performed the following tasks in conducting the review of personnel practices and career banding.

- FLA reviewed relevant statutes, laws and practices surrounding career banding and personnel practices and procedures. FLA also reviewed best practices, prior research reports, studies, white papers, procedure manuals, training guides, and other written material analyzing personnel practices in general and career banding specifically. A list of the material that was reviewed has been included in the Appendix.
- FLA interviewed twelve of the eighteen members of the Government Performance Audit Committee (GPAC) to obtain their perceptions of career banding and other personnel practices of the state.
- FLA conducted focus groups of employees, managers, HR Directors, agency directors and deputies, as well as Chancellors and university HR Directors, to identify significant issues and understand the environment of personnel management throughout the State. Approximately 300 individuals from throughout the State and a cross-section of agencies and universities were represented. A copy of the focus groups schedule and summaries of each group's comments are attached in the Appendix.
- More than 25 agency/university HR directors and OSP staff were interviewed in depth by FLA regarding career banding and other personnel practices specifically in their agency/university. Representatives of the University Forum (staff senate) and the State Employees Association of North Carolina (SEANC) were interviewed in depth as well regarding their experiences with the personnel practices of the State and their perceptions of career banding. A total of 20 individuals representing 16 large and small agencies were



interviewed to represent a variety of occupations and functions in the State. (See appendix for a list of the agencies and universities interviewed.)

- Quantitative data were collected by FLA regarding the personnel functions of the state in order to compare current conditions with other governments and organizations as well as with the effects of career banding.

The conclusions and recommendations are those of Fox Lawson & Associates, LLC alone, based on the information collected, the perceptions recorded and the collective experience of the firm's principals each representing over 25 years of experience serving large government organizations throughout the world.

# HISTORY OF CAREER BANDING IN THE UNITED STATES

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## Origins of Career Banding

While the literature, and this report, speaks to the three terms of pay banding, broad banding and career banding, it should be clarified that the Office of State Personnel adopted a career banding model. The distinctions are as follows:

- Pay Banding: a generic term that generally defines the process of establishing a minimum and maximum level of pay around a job or group of jobs.
- Broadbanding: a consolidation of pay ranges into fewer ranges, and therefore job classes, that were in separate pay ranges might be placed within the same pay band. (e.g., Engineer I, II, and III in the same pay band).
- Career Banding: a consolidation of an entire occupation into the same pay band. Placement and movement in the band is based on the level of skill and knowledge (competencies) normally obtained and demonstrated throughout one's career. It integrates workforce assessment and planning, recruitment, staff development and pay into an integrated system.

It should be noted that the State of North Carolina implemented Career Banding, whereas other states and the Federal Government implemented broadbanding.

Both broadbanding and career banding result in fewer distinct job classes or occupational distinctions (a simpler system) and a wider pay “range” or pay band within which to manage the pay of the employees. In traditional pay systems, pay is managed primarily based on time in grade, (seniority) whereas in career banding, pay is primarily managed through assessment of demonstrated skills, capabilities and performance of the individual employee.

Career banding and complementary terms “broadbanding” or “pay banding” had its inception in the United States in 1980 as a demonstration project at two naval research facilities. One was located in San Diego, and the other was in China Lake, California.

**Impetus** – The impetus for the demonstration projects was the difficulty these organizations had in meeting their recruiting needs with the existing General

Schedule (GS) system and other regulations of the Office of Personnel Management (OPM) in use by the federal government. The first demonstration project was so successful that it was extended beyond its intended five-year life. The success factors measured included employee satisfaction, improved recruitment, and retention of high performing employees.

**Federal Government Experience** - Since that time, the federal government has exempted about 22 separate agencies and departments from the GS system; the most recent example is the Department of Homeland Security. As of late 2006, approximately 250,000 employees of the federal government are working within a broadbanding system of one form or another. If the Department of Homeland Security and other recently authorized agencies are given final clearance to continue with their proposed broadbanding, this number will grow to about 650,000.<sup>5</sup>

**National Academy of Public Administration (NAPA) Recommendations** - In 1991, after an extensive examination of the advantages and disadvantages of broadbanding, the National Academy of Public Administration (NAPA) recommended the adoption of a new federal broadbanding classification system. In 1993, the National Performance Review, championed by then Vice-President Al Gore, reiterated the need for the federal government to move toward more broadbanded occupations.<sup>6</sup>

The reasons that NAPA and the National Performance Review called for expanded adoption of pay banding, were three-fold:

- Agencies were facing significantly reduced staffing levels, including a reduction in the number of managers who could supervise the work.
- Agencies were charged with reinventing programs and streamlining their structures to achieve greater efficiency.
- The current systems of policies and procedures did not allow sufficient flexibility to meet the needs of increased services with a reduction in staff capabilities.

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<sup>5</sup> Designing and Implementing Performance Oriented Pay Band Systems, IBM Center for the Business of Government, 2007.

<sup>6</sup> Modernizing Federal Classification: Broad-Banding Systems and Alternatives, National Academy of Public Administration, 1996.

## Application to State Governments

Broadbanding emerged in state government at about the same time as in the federal government. In a recent report that surveyed all 50 states regarding broadbanding, the data show that a total of 13 states, other than North Carolina, have implemented some form of pay banding in at least some of their occupations. Twenty-one other states considered broadbanding, but for a variety of reasons decided not to go forward with the concept. Fifteen states have not considered banding. Of the states that have implemented broadbanding, it is estimated that the system covers about 300,000 state employees.<sup>7</sup>

The reasons that 13 states, other than North Carolina, have implemented broadbanding are as follows:

- Recruit and retain a quality workforce.
- Create a performance-focused organization where pay is based on performance, not longevity or entitlement.
- Give managers greater authority to manage their workforces (e.g., assigning, paying, assessing performance).
- Simplify an overly complex human resources system.
- Operate in a more business-like manner.
- Emulate the success of other broadband systems.
- Improve organizational effectiveness.
- Provide pay increases to deserving employees.
- Increase the value of management responsibilities.

Of the states that have studied the concept but have not implemented it, their reasons include:

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<sup>7</sup> Broadbanding the Workforce. Draft, Reform Trends among State Human Resource Departments, Cortney Whalen, Florida State University.

- The testing process of applicants would not permit a broad-based system.
- A pilot was conducted and it did not produce the desired outcomes.
- Research into other systems did not produce clear-cut advantages or disadvantages.
- Insufficient benefits identified to make the effort to change the entire system.
- Union concerns with pay banding.
- Pay banding would eliminate the need for the classification function.
- Concern about the cost of reform efforts.
- Preference for their current system.
- General Assembly did not want to give up control over pay decisions.
- Concern that managers would not like to have responsibility for making pay decisions.
- Personnel department does not like the concept.

In many cases, the states that studied and rejected it did implement some changes including:

- Market analysis of competitive pay levels.
- Consolidation of similar titles.
- Elimination of unused titles.
- Broadening of salary range widths.
- Simplification of the current pay system.
- Initiation of pilot projects.

- Granting of more flexibility in salary management to selected departments, agencies or functions.

Results from the states that have implemented some form of broadbanding have been mixed. It has:

- Enhanced the responsiveness to market adjustments
- Provided greater decentralization of and control over compensation decisions
- Resulted in fewer job titles
- Increased internal equity
- Simplified program administration

On the other hand, it has some weaknesses:

- Some supporting programs such as performance management have not be implemented
- New policies require adaptation
- Funding has been inadequate
- Equity issues between agencies with different funding sources have been identified
- Recruiting for specific skills has been difficult
- Decentralized decision making has resulted in decreased accountability.

Yet, given this environment, none of the states or agencies of the federal government that have adopted a broadbanding system have reverted to their prior system of pay and classification. Finally, at least one other state is using the State of North Carolina's career banding model as their template for the development of their career banding system.<sup>8</sup>

## **Origins of Traditional Pay and Classification Systems**

Comparison between state pay and job classification systems and the GS system is relevant. The GS system has been in place since the 1930's time frame, which is about when the states adopted their current pay and class system framework. Both GS and traditional state systems grew out of the civil service laws that were designed to logically categorize jobs based on function and pay according to the relative value of the function to the organization. These systems were primarily inwardly focused to assure that employees were classified and paid based on the relationship of one job to another. Pay relation

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<sup>8</sup> Office of State Personnel Career Banding Report, The Segal Group, Inc, May 29, 2007.

to the market was only important at the entry-level class of any occupation, because all the other classes within the occupation were related to the first level. As a matter of practice, most occupations or job families had three or four levels, which allowed employees to be promoted to higher levels as they gained experience and seniority. The higher levels of a job family were traditionally not open to applicants who were not already employees of the system. Current employees were the only eligible candidates and they were promoted to the higher classes based on experience and seniority, not because the higher level job required a higher level skill.

Typically, internal ranking of the job (and therefore the pay grade) was based on a whole job ranking technique. Each job was reviewed “in total” to other jobs to determine if the job was bigger, smaller or about the same as another job. This method was used primarily to evaluate jobs across job families since the ranking within a job family (level I, II and III, etc.) was fairly well established. This whole job ranking method is very subjective and is not supported as a legitimate job evaluation tool by the Equal Employment Opportunity Commission in job equity defense cases.

As government work became more complex and varied over the years, new jobs were added. Over the years, most governments experienced an enormous growth of new job titles and increasing difficulty in assessing the value of one job in relation to another. For many governments, every minute difference in the character of the work required a different job title, and consequently a different pay grade. Governments installed more complicated job evaluation tools to adequately determine the proper pay grade. When these systems did not hold up over time, or became too rigid in their application, governments resorted to whole job ranking or slotting to determine the pay grade.

The GS system has grown in a similar fashion. This system now requires an analyst to master three large volumes (approximately 10 inches thick) of classifications, rules, procedures, specifications and other material. A federal classifier will require about two-three years to become fully trained in how to effectively use and apply the GS system. Once trained, classifiers require about 8 hours to correctly classify each job. There are so many distinct classifications that one agency reports that they have no idea how many different classifications are in their agency -- only how many employees they have.

The GS system has been the model for most states’ classification systems, including the State of North Carolina. It is a system, based on outmoded concepts of government work, with strict and rigid categorization of work and



lock-step pay systems tied to classification. Such a model defined work as clearly defined and rote; almost automatic, as if it could be done by a machine.

## **Experience in State Broadbanding Systems**

In one report on broadbanding, three states (South Carolina, Virginia and Florida) were examined in detail concerning the operational effects of their specific pay banding systems. These states had each implemented statewide systems in 1996, 2000 and 2001 respectively, covering a total of 249,000 employees.<sup>9</sup>

In those states, surveys were conducted among managers to identify the effects of their pay banding system. The total cost to implement the systems averaged \$3,000,000, all of which related to information technology system upgrades rather than salary increases or other implementation costs. In fact, in these three states, employee salaries did not increase as a result of pay banding.

The manager surveys found that the following areas did not show a significant change from the more traditional system:

- Manager flexibility to determine pay.
- Improved operational effectiveness.
- Reduced need to reclassify positions.
- Ability to reward performance and employee skill enhancement.

Our conclusion, based on the information available to date from the state and federal experiences, is that the reasons to move to some form of pay banding appear to be common across organizations. The need for increased flexibility, a desired move to a simpler system whereby managers are responsible for managing the human resources in their agencies so that they can do more effective work force planning and personnel adjustments, appears universal. Each state adopts its form of pay banding to meet unique circumstances and desired outcomes.

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<sup>9</sup> Broadbanding the Workforce. Draft, Reform Trends among State Human Resource Departments, Cortney Whalen, Florida State University.

So far, there do not appear to be any dramatic advantages or disadvantages of pay banding in relation to traditional systems of pay and classification. It could be that the varying skills and abilities of the other state's implementation have an impact on its effectiveness, just as the ability of the agency managers and employees to manage within the system will impact the outcomes.

However, if the State is interested in enabling an effective human resources culture and a high performing workforce, career banding as a human resources management tool far exceeds the evidence of the traditional classification and graded pay system. It does this by effectively combining decentralized management with workforce planning, career development, performance management and allocation of the right person with the right skills on the right job. No other single HR management tool can claim similar benefits.

## **Historic Perspective**

From a historic perspective, pay banding is a new pay system, in contrast to the traditional pay and class systems that have been in place in state governments for more than 70 years. The literature suggests that pay banding is not just a different pay system but also a system that involves significant organizational change. At this early stage in its development (no one has had a system in place for much more than a decade), it may be too early to critically judge the true effects of the cultural change brought about by pay banding. We have yet to experience a generation of workers and managers that have operated under a pay banded system. In contrast, governments have seen several generations of workers, managers and elected officials operate under the traditional systems. Consequently, our understanding of pay systems and the rules that should govern them are based on the traditional pay and class systems of the past 70 years. To expect radical changes from a system that has been in effect for only about a decade may be too optimistic.

The economic changes occurring in the late 1980s and early 1990s, coupled with the changing demographics of the American workforce, have driven many organizations to reexamine whether their pay systems allow them to respond effectively to competitive pressures. Issues such as dissatisfaction with complex job evaluation systems, the need to retain top contributors, pressure to eliminate management levels which do not add value, and development of a more skilled and versatile workforce have sent organizations in search of a "magic bullet" compensation system to address these problems. Broadbanding has developed as a response to these issues and has become one of the most talked about and debated topics in compensation.

## **Why Broadbanding?**

Broadbanding, in its simplest terms, is the consolidation of traditional salary grades into a small number (typically 5-10) of wide (100-150% range spreads) bands, with managers having increased discretion in employee pay decisions as compared to traditional pay systems. Unlike traditional pay systems, broadbanding provides greater flexibility to operating managers to recognize individuals for their contributions to organizational success and to act quickly to respond to changing priorities and workforce demographics. Perhaps more importantly, broadbanding is seen as an approach to create and support culture change in re-engineered, streamlined and customer-focused organizations.<sup>10</sup>

While some organizations may consider broadbanding because of a desire to streamline pay delivery and reduce bureaucracy and administrative effort, the overwhelming reason why organizations choose broadbanding is to improve organizational effectiveness. Broadbanding is not just a pay system, but also an approach that helps integrate pay with organizational values, structures and processes. Broadbanding can support the development of employees' performance and the development of employee skills and careers that will play a major role in organizational success.

Other advantages of broadbanding include easing restructuring efforts, allowing managers to “pay the individual” instead of paying the job, and facilitating teamwork because of the elimination of hierarchical barriers.

## **Important Go-Forward Considerations**

Before an organization considers broadbanding, it should first assess its existing pay system. Does the current plan support the direction the organization needs to go to be successful in the future? If not, what about broadbanding seems to address the new vision? An evaluation of broadbanding, and the factors that research has shown contribute to successful implementation, can provide a useful yardstick for assessment of whether the organization has the cultural readiness for broadbanding.

Organizations choosing to consider implementation of a broadbanding plan have a number of decisions to make about the design of the structure and pay

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<sup>10</sup> “Broadbanding”, White Paper, *WorldatWork*, May 2000.

delivery under the structure. These decisions should be based on the characteristics and culture of the specific organization.

- Grades or Bands: The most significant decision is whether to use broad grades or career bands. Organizations seeking primarily to reduce the administrative burden of traditional pay systems may find that broad grades accomplish this objective with minimal impact on the organization. Organizations, however, who wish to empower managers, focus on developing the careers of their employees, and support a change strategy in their organization will find that career bands better meet their objectives.

Once the decision is made between career bands and broad grades, determining the details of the pay plan structure and slotting jobs into the structure is relatively simple.

- Pay Delivery: The decision of how to deliver pay is one of the most significant considerations faced by organizations choosing to implement broadbanding. Survey results from private sector companies that have implemented broadbanding indicate that the majority of the companies utilize a market-based approach, which may include a performance component. Less commonly used approaches include performance or skill-based models and internal value-based models.

By the use of a market pricing strategy, organizations can provide managers with the necessary external market data to make informed decisions, while giving managers the flexibility to make pay decisions based on performance, with market value as a consideration but not a controlling one. Salary increase planning, even if traditional merit or total increase budgets are used, can control salary costs while providing the flexibility to managers to reward employees based on their contributions.

- Guidelines: A concern of many organizations, including the State of North Carolina, when considering the implementation of a broadbanding pay plan is whether the lack of guidelines will result in significantly increased salary costs. Other concerns include how to deal with fewer promotional opportunities, how to make lateral moves more attractive to employees, and how to deal with the loss of status, which occurs when the number of job titles and levels is reduced.
- From Entitlement to Value-Added: Another issue (which is perhaps most important for the State of North Carolina) is how to move from an

entitlement mentality that focuses on longevity and equity for all employees to a focus of pay based on added value. This shift that must occur, to move employees and managers from the tradition that “we pay the job” to “we pay the individual”, is a difficult one. Also, with a shift to market pricing, efforts must be made to prevent the market value of the job from becoming the new focus of employee entitlement. And finally, how can an organization avoid the potential fatal flaw that occurs when managers treat the broadbands as very wide pay ranges and do not limit increases due to an unwillingness to upset employees?

- Plan Design: Most organizations with broadbanding have found that effective plan design and employee and management buy-in can best be accomplished by the use of a cross-functional design team. Such a team allows for direct feedback and a wider range of ideas from employees and managers that will be affected by the plan. By the use of subgroups or issue teams, even wider participation in the process is gained and the chances of success of the plan are enhanced.
- Communication: While plan design is important, of equal importance is the communication of the program to employees and managers. This communication effort will be more extensive if the organization chooses to implement career bands. With broad grades, many components of the pay system will generally not change, and communications can be limited to changes in the system. With career bands, communications will need to address not only pay system changes but also changes in the organizational environment signaled by a movement to career bands.

One successful approach is to have the design team involved in designing the communications effort, because many design decisions are related to communications needs. After implementation, a step not to be forgotten, is follow-up training and communications. Most organizations put major effort into “rollout”, but continuing communications are necessary to keep new and existing employees and managers on target with the program.

- Individual Pay Decisions: One effect of banding is the increased ownership of line managers in making pay decisions. While many traditional plans place some authority for pay with managers, it is usually within very structured guidelines. This is especially true in government settings as is certainly the case with the current State of North Carolina program. With broadbanding, especially career bands, managers have much greater discretion and authority for pay decisions but without the structures that provide guidance

under traditional plans. By recognizing and supporting the decision-making role of management in pay decisions and providing managers with the tools to assist them in making good decisions, HR can form a partnership with line management that can lead to an enhanced role for HR.

- What are the tools that management needs? In a market-based broadbanning program, HR's responsibility is to:
  - Provide comprehensive and accurate market data, and
  - Assist managers in interpretation of these data.
- What about jobs for which there is no valid data? Will job evaluation of some type be used for non-benchmark jobs? What are the policies and procedures for pay decisions, even though they will be limited? The provision of information to managers through technology must also be a consideration if HR is to be fully available to assist managers.

## **Key Success Factors**

To be successful in today's changing organizations, HR will need to change from its traditional control-oriented oversight role to a consultative role that supports line managers. Broadbanning can contribute to this change. HR must act as a business partner and a resource to organizational management. This is consistent with the guidance provided by Chapter 126 regarding the intent to decentralize personnel administration where appropriate. For this to occur, HR will need to use expanded knowledge to support the organization, not only in HR matters, but in other ways as well. For example, the International Public Management Association for Human Resources provides training in the HR competencies needed to make the necessary transition to a consultative role.

The future of pay banding in any organization depends on how it is developed and perceived. From our observations and interviews, career banding has generated considerable interest and a fair amount of rumor and conjecture. Does career banding in North Carolina represent the future of salary management, or just a way-station on the road to more effective utilization of human resources? Most past pay initiatives that have cropped up in the field of compensation were much more limited in their goals and expectations; career banding is viewed as a change agent, not just a pay system.

If broadbanding is successful as a concept and as a method of managing pay, it will create other changes in the way work is viewed, described and rewarded. Successful pay banding will lead to employees with a variety of cross-functional skills, or at least a greater appreciation of the skills that are needed to move ahead in compensation and other work rewards. Our concept of jobs will be impacted, because it will become increasingly difficult to define a job solely by a list of structured duties which employees in a job class perform.

## **Questions Remain**

Within the HR profession, questions about banding remain, including:

- What are the implications of this change on the issue of equity?
- How does skill-based pay fit into the equation?
- What about the increased use of variable pay to focus employee attention on changing organization priorities?
- Can pay incentive actions meet these priorities?
- Is competency-based pay the new “silver bullet”?
- How can/will competency-based pay integrate with broadbanding?

These questions are over-shadowed by the ability of the organization to move from rule and procedure-based administration of pay to management of pay to meet goals.



## **HUMAN RESOURCES ENVIRONMENT IN NORTH CAROLINA**

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One of the issues we were asked to address as part of this study are additions or changes to existing North Carolina statutes, if necessary, to implement any consultant recommendation. Consequently, it was first necessary to review the current legislation that governs the management of the state personnel system. Legislation related to issues under review has been codified into Section 126 of North Carolina General Statutes and provides the focus for our review. Recommendations for changes or additions to this Chapter are outlined in the Recommendations Section of our report.

### **Enabling Legislation**

Chapter 126 of North Carolina General Statutes establishes and defines the State Personnel System. It is important to understand the basic requirements of this Chapter in order to determine whether the processes and practices of the Office of State Personnel are appropriate, and if not, whether the problems are a result of deviations from the existing requirements or whether the requirements themselves are inconsistent with contemporary or what is considered to be best practice. Following are the key sections of Chapter 126 that we believe most closely relate to the issues under review:

#### **Section 126-1. Purpose**

The first sentence in the chapter specifically states:

“It is the intent and purpose of this chapter to establish for the government of the State a system of personnel administration under the Governor, based on accepted principles of personnel administration and apply the best methods as evolved in government and industry.”

The section further states: “It is also the intent of this Chapter to make provisions for a decentralized system of personnel administration, where appropriate, and without additional cost to the State, with the State Personnel Commission as the Policy and rule-making body.”

We believe that these statements are sufficiently broad to encompass a career band classification and compensation system. Furthermore, career banding is fully consistent with a decentralized system of personnel administration.

### **Section 126-3. Office of State Personnel Established**

This section grants specific authority to the Office of State Personnel to manage the State's Personnel System and vests specific authority to the Director.

As written, the authority to manage the State's Personnel System is vested with the Office of State Personnel. By virtue of this section, the General Assembly has delegated the responsibility and the authority to manage the system to the Office of State Personnel.

Currently OSP has authority to provide policy development, rule making, training, maintaining personnel information and data, providing approval of personnel actions, negotiating the decentralized authority to agencies/universities and implementing corrective action for cases of noncompliance. For the most part, this has worked as well as might be expected in a large complex government operation. The decentralization of personnel actions requires three essential elements: trained human resources personnel in the agencies/universities, a system to audit and review the actions of the agency/university, and information for the PMIS system. The right to rescind the delegation of authority needs to be strengthened to allow the OSP to take back the authority if the agency/university is found to be out of compliance with the proper administration of Chapter 126 and policies of the State Personnel Commission and/or their program has been found to be ineffective. We encourage decentralization of personnel practices if the audit function is strengthened. Further, we believe that there should be a dotted line relationship between the OSP Director and the HR director in the agencies/universities, to ensure consistency. However, we encourage the centralization of some training programs, statewide coordinated recruitment process and technology, and benefits administration. These are high cost areas where efficiencies can be achieved through centralization of resources, focus and process.

### **Section 126-4. Powers and Duties of the State Personnel Commission**

This section grants specific authority to the State Personnel Commission to establish policies and rules governing the position classification plans, the compensation plans including minimum and maximum rates of pay for all employees, recruitment and selection programs, as well as several other issues.

It appears that this subsection gives the authority and the responsibility to establish the rules, policies and procedures governing the classification and compensation to the State Personnel Commission. Since career banding is simply a broader-based form of job classification, the authority to modify the State's classification system rests with the Commission.

## **Section 126-7. Compensation of State Employees**

This section sets forth the State's policy relative to compensation of State employees. There are two key subsections, as follows:

“(a) It is the policy of the State to compensate its employees at a level sufficient to encourage excellent performance and to maintain the labor market competitiveness necessary to recruit and retain a competent workforce. To this end, salary increases to State employees shall be implemented through the Comprehensive Compensation System based upon the individual performance of each State employee.”

“(b1) The Comprehensive Compensation System shall consist of the following components: (i) the career growth recognition award, (ii) the cost of living adjustment, and (iii) the performance bonus. The career growth recognition shall be the primary method by which an employee progresses through his or her salary range and shall be awarded annually to employees who qualify for the award.”

Although the General Assembly clearly has the authority and the responsibility to appropriate funds for employee compensation, this section defines the elements of the State's compensation program, and how the State's compensation program should relate to its ability to recruit, motivate, and retain personnel. Records reveal, (see history of funding below) however, that the General Assembly has not funded the programs that it has authorized, thereby severely limiting the State's ability to recruit qualified candidates, motivate high performing employees or retain an adequate work force. Instead, the General Assembly has funded the compensation program in a manner that sends the following message to employees:

- Differences in employee job performance will not be recognized through differences in pay, regardless of what the legislation states.
- Pay adjustments for jobs that are in high demand will not be accommodated through the compensation system.

These perceptions are not consistent with the intent of Chapter 126 – 7. How the General Assembly has funded the compensation program has been contrary to the legislation. It has not consistently funded or authorized salary increases “based upon the individual performance of each State employee” nor has it “compensate (d) its employees at a level sufficient to encourage excellent performance and to maintain the labor market competitiveness necessary to recruit and retain a competent workforce.”

### Legislative<sup>11</sup> and National Salary Increases<sup>12</sup> July 1971 through July 2006

Year	ATB Increases	Additional Compensation - Career Growth	Performance Increases / Bonus / Comments	National Salary Increases	Difference
1971	5.0%		Standard merit funds per State Personnel Act- (2/3 money available)	n/a	
1972	5.0%		Same as previous year	n/a	
1973	5.0%	(+ add'l 5% for low paid employees)	Same as previous year	n/a	
1974	7.5%		Same as previous year	n/a	
1975	0.0%		Same as previous year	8.9%	-8.90%
1976	6.5%	Average (4% + \$300)	Same as previous year	8.2%	-1.70%
1977	6.5%		Same as previous year	8.2%	-1.70%
1978	6.0%		Same as previous year	8.4%	-2.40%
1979	5.0%	(+ \$200 Lump Sum)	Same as previous year	8.0%	-3.00%
1980	10.0%		Same as previous year	9.9%	0.10%

<sup>11</sup> Office of State Personnel.

<sup>12</sup> Salary Budget Survey, 34<sup>th</sup> Annual, *WorldatWork*, 2007-2008.

1981	0.0%		Same as previous year	10.5%	-10.50%
1982	5.0%	Inc granted Jan, 1983; no LI in July	Merits Frozen	9.1%	-4.10%
1983	5.0%		No Merits	6.9%	-1.90%
1984	10.0%		No Merits	6.5%	3.50%
1985	5.0%	One step (approx. 5%) inc to ee w/1 yr. con svc.		6.4%	-1.40%
1986	\$900 (avg. 4.5%)		1.2% payroll for merits-limited to 2, 1/4 steps	5.9%	
1987	5.0%		No Merits	5.2%	-0.20%
1988	4.5%		No Merits	5.2%	-0.70%
1989	4.0%		2% of payroll for merits	5.4%	-1.40%
1990	4.0%		2% of payroll for merits	5.5%	-1.50%
1991	0%		No Merits	5.0%	-5.00%
1992	\$522 (avg. 2.0%)		No Merits	4.7%	
1993	2.0%	1% one-time bonus	No Merits	4.3%	-2.30%
1994	1% @ HR; 4% @ Max; 4% for EE's	1% one-time bonus	No Merits	4.0%	
1995	2%		No Merits	4.0%	-2.00%
1996	2.5%	2% Career Growth - Effective 9/1/96	No Merits	4.1%	-1.60%
1997	2%	2% Career Growth	No Merits	4.3%	-2.30%
1998	1%	2% Career Growth	1% Performance Bonus	4.5%	-3.50%
1999	1 %	2% Career Growth	\$125 Bonus	4.4%	-3.40%
2000	2.2%	2% Career	\$500 Bonus if	4.6%	-2.40%

		Growth	on payroll 10/1/00		
2001	\$625 (avg. 1.9%)	0% Career Growth	No Merits	4.6%	
2002	0%	0% Career Growth	No Merits; 10 days bonus vacation leave if on board 9/30/2002.	3.9%	3.9%
2003	0%	0% Career Growth	\$550 Bonus if on payroll 10/1/03 and 10 days of bonus leave vacation if on board by 7/1/2003.	3.6%	-3.6%
2004	Greater of 2.5% or \$1,000	0% Career Growth	\$40,000 is the salary above receives 2.5% and below receives \$1,000.	3.6%	
2005	Greater of 2.0% or \$850	0% Career Growth	5 days bonus leave if on board 9/1/05	3.7%	
2006	5.5%	0% Career Growth	No Merits	3.8%	1.7%
2007			n/a	3.9%	
<b>Average</b>	<b>3.75%</b>		<b>n/a</b>	<b>5.9%</b>	<b>-2.2%</b>

While there are several other subsections, the substance is that the Commission is the body that establishes award parameters. OSP and the Commission are also charged with approval of performance appraisal processes that will be the basis for granting awards under the Comprehensive Compensation System.

Chapter 126 clearly defines both the purpose of the State Personnel Act and the authority of the State Personnel Commission and the State Personnel Director to administer and manage a program that meets the broad policy directives set forth in statute. However, the Governor and the General Assembly have failed to provide adequate funding for the programs that have been mandated. The table above demonstrates that the General Assembly has not consistently funded the merit/performance pay program, nor has it funded the compensation program at a level that is comparable to the market. Over 30

years of pay adjustments, the record indicates that the General Assembly has funded the compensation program at an average of 2.2% below the market over 30 years. As outlined above, it is the State's established policy "to compensate its employees at a level sufficient to encourage excellent performance and to maintain the labor market competitiveness necessary to recruit and retain a competent workforce." Funding for compensation adjustments has not met this requirement. That does not mean that the Governor or General Assembly must continually increase funding for employee compensation. However, unless staffing levels and service requirements are factored into the overall equation, the State's ability to fulfill the mandated requirements becomes problematic.

At the same time, the General Assembly has imposed numerous requirements that appear to be contrary to the stated purpose of Chapter 126. Examples include its direct involvement in the composition of the career banding program, including what job classifications and/or occupational groups should or should not be included in such a program when the management of the classification and compensation systems is clearly delegated to the Personnel Commission. Oversight of the system is a legislative responsibility and a review of the policies and practices of the Commission and the Office of State Personnel are appropriate.

In addition, the State's budgeting policies and practices create disincentives to operating managers to be efficient in their use of State resources. The limitations that have been placed on use of salary savings resulting from vacant positions, along with the practice of periodically sweeping vacant positions, imposes limits that are contrary to effective management in a contemporary environment.

## **Career Banding in the State of North Carolina**

### **Background**

Our interviews with the Office of State Personnel (OSP) and other Human Resource Directors in the State indicate that the following reasons were the primary impetus to explore the concept of career banding in the State of North Carolina.

- The GPAC report of 1992 concluded that:

- The classification system has not had a comprehensive review since 1949 and has more classifications than necessary, negatively affecting effectiveness and perceived equity.
  - The State's compensation practice is heavily weighted toward cost of living and longevity as opposed to pay for performance.
  - Eighty-three percent of fiscal year 1991's eligible employees who underwent evaluation were rated "exceeds expectations," which is so highly skewed that it reduces the performance evaluation's effectiveness for use in a reward for performance system.<sup>13</sup>
- OSP was experiencing critical turnover in the department such that managing the current classification and compensation system was becoming more and more difficult. Institutional knowledge of the similarities, differences and histories of all the state's classifications was no longer present. A simpler, more transparent system was thought to be less dependent on staff memory and history.
  - OSP estimated that within ten years, up to 35% of the then current work force would be retiring from state government creating a critical skill shortage.<sup>14</sup> A system needed to be established to identify the skill and manpower needs of the agency and to identify the training needed for existing employees to step into future roles.
  - There was a need to refocus recruitment efforts toward hiring and promoting individuals who could demonstrate that they could do the work required, rather than based on years of experience or, for promotions, time in grade. More focus was needed on the knowledge, skills and abilities required to perform the job functions, as opposed to time and seniority.
  - With the potential for significant changes in the size and nature of the expected work force, there was an identified need to build capacity to conduct workforce planning in the agencies. The need to critically address a more effective way to manage existing talent and attract the talent that the state needed was driven by changing workforce demographics.

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<sup>13</sup> North Carolina General Assembly Government Performance Audit Committee, "Performance Audit of Personnel Systems", KPMG Peat Marwick, December 1992.

<sup>14</sup> "Why Career Banding in North Carolina?" Office of State Personnel. No date.



- OSP recognized that they had too many distinct job classes within the system and that many job classifications were seriously out of date. Repeated efforts to provide direction to the department to allow the state to streamline its classification and compensation system have been unsuccessful. OSP concluded that they needed a better, faster and simpler system to manage pay.

At about the time that the 1992 GPAC report was issued, the Office of Information Technology Services (ITS) was experiencing significant and seriously damaging turnover. The extent of the turnover forced the HR director of that agency to obtain authorization to explore an alternative pay system for the ITS occupations.

With OSP's assistance, ITS was initially able to collapse and consolidate many of the old titles and create a system of titles and pay levels that were more applicable to their mission. With the assessment of the labor market rates through more clearly defined jobs, they were able to recruit and retain the talent that was required. The ability to move pay rates to more closely match the competitive market rates has helped ITS achieve these goals.

Although there is no statistical data available, the ITS HR Director now reports that as a result of these early efforts, the following effects have been realized:

- Recruitment: They have been able to attract better applicants as a result of pay that is closer to the market rates and more clearly defined skill sets.
- Turnover: It now appears to be related more to management issues as opposed to pay, which it had been earlier.
- Job Satisfaction: Managers appear to like the pay and assignment flexibility of the career banding system and they believe that they have better employees and better performance. Employees also appear to be more satisfied.
- Legal: The career banding system has caused them to have better documentation for personnel decisions than in the past.

## Process of Career Banding

In any organization that is implementing broadbanding, the key success factors involved in the successful implementation of a career banding system involves decisions about the following set of issues:

- Grades or Bands - Organizations seeking primarily to reduce the administrative burden of traditional pay systems may find that broad grades accomplish this objective with minimal impact on the organization. Organizations, however, who wish to empower managers, focus on developing the careers of their employees, and support a change strategy in their organization will find that career bands better meet their objectives.

Based on the issues that OSP identified as critical in the state, the decision was to adopt career banding. While it is a more difficult process, career banding, more so than simplifying the current classification system or broadbanding, held out the possibility that it could successfully address the issues of a simpler system, decentralization of personnel decisions, career planning, performance management and workforce planning.

- Pay Delivery - The decision of how to deliver pay is one of the most significant considerations faced by organizations choosing to implement broadbanding. Survey results from private sector companies that have implemented broadbanding indicate that the majority of the companies utilize a market-based approach, which may include a performance component.

OSP decided that linking the career banding approach with market based targets and integrating the performance component would most consistently meet the requirements of Chapter 126.

- Guidelines - A concern of many organizations when considering the implementation of a broadbanding pay plan is whether the lack of guidelines will result in significantly increased salary costs.

OSP addressed this issue very well with guidelines on the measurement of competencies required, assessment of the competencies demonstrated by employees, the logical and mathematical comparison of demonstrated competencies of each individual within the occupation and the use of the market median as the target pay level for each competency level. This method requires subjective judgments; however, the procedures put in place

are designed to limit subjectivities and encourage consistency across agencies. Our analysis of salary cost increases (detailed later) demonstrates that salary increases have been greater in the traditional classes than in the career banded classes.

- From Entitlement to Value-Added - Another issue (which is perhaps most important for the State of North Carolina) is how to move from an entitlement mentality that focuses on longevity and equity for all employees to a focus of pay based on added value. The shift that must occur to move employees and managers from the tradition that “we pay the job” to “we pay the individual” is a difficult one.

This is a transition that needs to be made in North Carolina, as well as elsewhere. In fact, most of the complaints about career banding revolve around the loss or potential loss of entitlements to which employees in the State have become accustomed. It will be most difficult for workers with greater seniority to adapt to this focus, but less difficult for the newer workforce. The transition will take time, but it is an inevitable evolution. We believe this transition will require a generation of workers. The practices of career banding focus this redirection. OSP’s guidelines reinforce the concept of paying the individual. The career development component brings together the manager and employee to identify the necessary value added competencies that employees must have to advance. Funding the compensation system for merit (last done in 1990-1991) as mandated by Section 126-7, will reinforce the change.

- Plan Design - Most organizations with broadbanding have found that effective plan design and employee and management buy-in can best be accomplished by the use of a cross-functional design team.

Early in the design of career banding, OSP initiated a cross-functional design team of OSP specialists, managers, HR directors and subject matter experts. Recognizing that the success of career banding depended on buy-in from the operating agencies, the design model that OSP used incorporated the key stakeholders. In addition, as each new occupation is career banded, cross-functional teams meet to develop the competency templates that will be used in each agency to band their jobs. Then, as each agency bands their jobs, OSP involves key stakeholders in the agency to refine the competency definition templates.

- Communication - While plan design is important, of equal importance is the communication of the program to employees and managers. This communication effort will be more extensive if the organization chooses to implement career bands.

Initially, the career banded program in the State was “sold” as a no cost change. HR Directors and employees claim that this was not an accurate statement by OSP. In addition, agencies stated that details of the program “slipped out”. The complaint was that there was no “go live” date.

Agencies also claimed that OSP did not have the answers to questions regarding normal personnel actions, such as reduction in force and dismissals, or were given different answers by different specialists in OSP. OSP admits that its early communication was inadequate and they had not thought out all ramifications of various personnel actions under the career-banding program. However, we also discovered in some areas of personnel practices, such as reduction in force (RIF), OSP did have a formulated policy but the some of the agencies did not like it. Thus, different messages were given to employees. This led to early confusion and concern that career banding was not an appropriate program for the State. This situation has damaged the perception of career banding in the State among employees, managers and legislators.

While regrettable, it may have been predicted. Career banding is a new program for the State. Even though the procedures now are well thought out, any change will bring about questions that have not been anticipated. The implementation of BEACON is a good comparison. This ERP (Enterprise Resource Planning) program has been installed in hundreds of organizations throughout the world. Thus, many implementation details and practices should already have been worked out from which agencies may rely, yet agency participants in that implementation claim that many of the issues that need to be resolved in the State have not been thought through. Still, they have few complaints about the structure of the BEACON system and whether it is the right system for the State.

- Individual Pay Decisions - One effect of banding is the increased ownership of line managers in making pay decisions. While many traditional plans place some authority for pay with managers, it is usually within very structured guidelines. In a market-based banding system, HR’s (OSP’s) responsibility is to:

- Provide comprehensive and accurate market data, and
- Assist managers in interpretation of these data.

OSP has accomplished this by providing market data at the appropriate competency levels. In addition, it has provided a logical and mathematical metric for comparing employee's competencies with the market data so that individual pay decisions are guided by solid data and an objective way of interpreting it.

While there may be many issues regarding the implementation of career banding, the system has followed professional guidelines, established appropriate procedures and templates to guide and direct agency decisions and retained the oversight authority to approve or disapprove of agency decisions. The future will contain many more changes and questions that may not have immediate answers as is the case with any new system that involves change. Is it the result of career banding or is it a result of organizational change? In our opinion, it is the process of organizational change that is causing the concern, and these concerns would be present whether the new system is career banding, broadbanding, or simply the consolidation of job titles. Concern is to be expected.

OSP has a defined process for the development and implementation of a career banding system. First, occupational groups have been determined for career banding. Currently 9 occupations have been identified including:

- Administrative Support
- Information Technology
- Law Enforcement and Public Safety
- Information and Education
- Medical and Health
- Institutional Services
- Operations and Trades
- Engineering and Architecture
- Natural Resources and Scientific

Information Technology and Law Enforcement Classes have been implemented statewide and the others are in process. As of the end of 2006, approximately 24% (21,855) of State employees (n = 89,708) are career-banded.<sup>15</sup>

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<sup>15</sup> "North Carolina Human Resource Annual Report", 2006, Office of State Personnel.

Initially, OSP works with agency or university HR specialists, subject matter experts, managers, supervisors and employees in the relevant job areas to define a template of competencies for each occupation. Competencies are defined as Contributory, Journey and Advanced. Once these “standard” competencies are developed, the agencies/universities work to further refine or modify them for any special and unique circumstances in their respective agencies/universities.

With the help and approval of OSP, each employee in the occupation is assessed to determine their individual level of competency. Based on a precise formula, and a standard set of guidelines, employees are determined to be performing at the Contributory, Journey or Advanced level. There are multiple ways to achieve each category, based on competencies.

Employee pay is determined by reference to the market rate for the level of work (Contributory, Journey, Advanced), and the measurement of an employee’s competencies. When making pay decisions, agency HR and managers/supervisors must consider certain pay factors as follows:

- Financial resources of the agency/university including turnover rates and hiring difficulty.
- Appropriate market rate for the employee’s competency level.
- Internal pay alignment of other employees who are performing similar work at the same and related competency level.
- Required competencies that are needed for the job and are demonstrated by the employee on the job.

OSP reviews the documentation that is provided by the agency/university and approves or disapproves of the process and assessment for each employee. In some cases, additional documentation has been requested.

This process of establishing competencies and evaluating an employee’s competency level is more labor intensive than the current system used to assess employee’s work. This perception is due, in part, to the shift in responsibility for classification from OSP in the traditional system to each agency under career banding. Career banding is also a more rigorous and thorough process. HR directors each expressed that the initial development of competencies and the assessment of the employees takes considerable time

and effort. Further, it requires that operational managers consider aspects of the employee's capabilities, performance and agency needs in a way that they have not been required to do under the traditional system. However, they also agreed that once the initial process is completed, it took no more time than the traditional system to determine the proper level of an employee's competency. But, it provided better and more complete documentation on each job and each employee. This was viewed as a positive advancement, relative to legal challenges, not experienced under the current system. Career banding clarified the relevant market rate in a way that was not transparent in the traditional system

To a person, all HR directors interviewed stated that one difficulty with the career banding system has been insufficient funds to correct the market inequities identified. While they recognize that *career banding did not create the market inequities, it did highlight the pay discrepancy* in a way that was far clearer than the traditional system. Now, with new information available, they can plan more logically to adjust pay as financial resources permit. Under the traditional system, managers were unable to clearly tell what the accurate labor market rate was, but the perception was that employees were underpaid. This perception led managers to find ways to increase pay for long term and good employees by some of the following techniques:

- In-range adjustments.
- Reclassification of employees.
- .
- Rating of employees' performance higher than may be warranted in the anticipation that the General Assembly will fund merit pay.
- Reorganization or realignment of jobs, including the creation of new job titles with a higher pay grade assignment.

While all of these methods are legitimate personnel actions, the volume of such actions (28,013 employees have been reclassified since January of 2002 to September 2007) suggests that the current system has not been responsive to the market or agency needs.

## Outcomes of Career Banding

There have been numerous questions surrounding the results of career banding.

Based on input from a cross section of employees, managers, HR Directors, agency directors, and chancellors, (approximately 300 provided comments) *there appears to be general support, but concern*, for the system because:

- The career banding system is viewed as a positive change from the rigid and difficult to use current pay and class system.
- Career banding allows flexibility to meet unique needs of the agency/university.
- Career banding forces managers to critically assess their agency/university manpower needs and plan more effectively for the future.

They agreed, however, that career banding might not be applicable to all jobs. They also identified challenges regarding the system:

- Funding was not adequate to gain the full advantages of new system.
- Career banding initially was not well understood and OSP offered conflicting advice.
- Career banding decisions regarding employees still requires approval by OSP.
- There are not enough classes (jobs) included in the program; thus they are required to operate within two systems.
- There is no State pay philosophy relative to inter-agency pay. This creates the potential that one agency will pay more for the same job than another agency causing internal competition within the State.

The issues outlined above are significant and should be addressed with objective data.

## **Measures of Career Banding Effectiveness**

We examined these and other areas to determine if career banding has had any objective positive or negative results. Specifically, we sought to address the effects of career banding verses the traditional pay and class system with objective data in the following areas:



- Turnover: Has career banding reduced or increased voluntary turnover? The evidence suggests that it reduces voluntary turnover.
- Recruitment: Does career banding allow the State to hire better employees and hire them faster than under the traditional pay and class system because the competencies are more specifically identified? The evidence suggests that career banding allows agencies to screen for better qualified employees.
- Grievances: Has career banding reduced the number of employee grievances related to pay, promotion and performance? Career banding has substantially reduced, or eliminated grievances according to the HR directors that we interviewed.
- Reclassification: Has career banding reduced the number of reclassification requests? By its design and process, career banding has replaced reclassification requests with an examination of employee competency. Career banding has reduced the number of job reviews as a result.
- Pay: Has pay become more market competitive for career-banded jobs versus traditional classes? Pay is more competitive for career-banded jobs. Further, pay increases are lower under Career Banding than under the graded system. Pay increases are more likely to be given to the lower paid jobs than the higher paid jobs under Career Banding.
- Training: Has career banding increased employee training and career development? No evidence exists.
- Employee Morale – Satisfaction: Has career banding increased employee morale and job satisfaction? Employees demonstrate improved morale and satisfaction with career banding.
- Adverse Impact: Has the implementation of career banding had any discriminatory effects in comparison to the traditional pay and class system? Under Career Banding non-whites are advanced less often than whites, however, non-whites are more likely to receive pay increases under Career Banding than whites and at twice the rate than under the graded system. The evidence does not support a conclusion that career banding has had an adverse impact on non-whites.

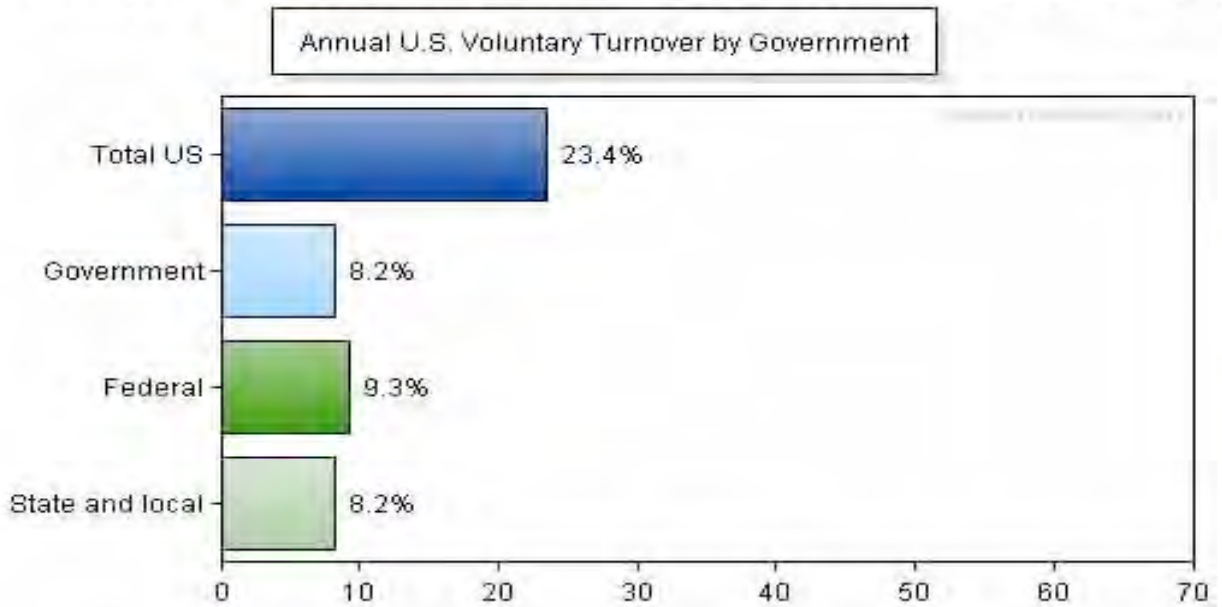
The results are presented in the next sections.

**Turnover** - The current rate of voluntary turnover in the State of North Carolina, as well as other governments, is below national turnover rates. The voluntary turnover rate is defined as the rate of employee leavings that are not due to retirements, dismissals or deaths. Nationally, the voluntary turnover rate is measured at 23.4% for all industries, with state and local government at an estimated 8.2%. This turnover rate has remained relatively constant over the prior two years, as shown in the charts below.<sup>16</sup>

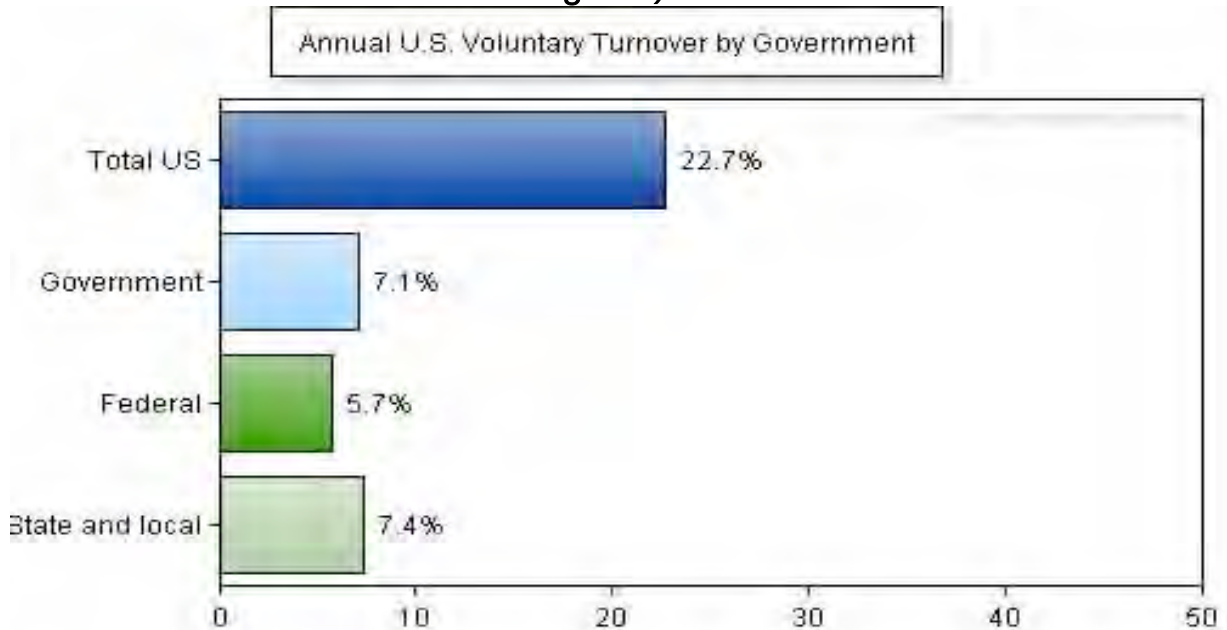
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<sup>16</sup> Data supplied by the U.S. Department of Labor, August 2006.

## Employee Turnover Rates - Voluntary by Government (Sep/05 - Aug/06)



## Employee Turnover Rates - Voluntary by Government (Sep/04 - Aug/05)



Note: Two years of national turnover data are shown to demonstrate that the rates of turnover have not changed substantially, and to compare such data with the five year record in the State of North Carolina.

The State of North Carolina has experienced a slightly higher rate than the reported national figures. The chart below shows the voluntary turnover rate in the State for state and local government for the last several years.

### Voluntary Turnover Rates – State of North Carolina

FY 2001-2002	9.35%
FY 2002-2003	8.42%
FY 2003-2004	8.57%
FY 2004-2005	9.23%
FY 2005-2006	9.20%

Clearly, the State has experienced turnover rates that have been higher than other state and local governments, but, like most state and local governments, significantly less than most industries.

With regard to turnover, has career banding changed turnover rates? Unfortunately, there is very little objective data. HR managers claim that turnover has decreased, but they are unable to provide sufficient data to verify this conclusion. They have not kept these data.

One agency, the Department of Justice (DOJ), reported that the introduction of career banding increased turnover in their agency. A review of the data they provided indicates that out of a total of 75 IT positions, voluntary turnover for the two years before career banding totaled five employees (6.6%), but totaled nine employees (12%) in the two years since career banding. The increase is primarily attributed to employees transferring to other agencies of the State. If we remove transfers to other agencies from these numbers both before and after career banding, the number of voluntary separations from State service remained comparable, at four employees.

While the DOJ did not lose any additional employees due to career banding, they lost employees to other agencies after career banding. The State did not lose employees because of career banding but, in this case, DOJ needed to replace employees. DOJ attributes the increase in transfers to the perception that other agencies were able to pay their IT employees more than DOJ because of greater financial resources and their consequent ability to raise IT salaries through the career banding system. Others affected by the transfers, report that DOJ did not follow the career banding guidelines appropriately. Employees were frustrated with the process and left for a better environment.

Employees that transferred to other agencies received substantial pay increases (between 6.2% to 20.43%). It is claimed that such transfers may have occurred without pay increases if they were done under the traditional pay and class system.<sup>17</sup>

The Department of Health and Human Services reported that average voluntary turnover for one position, Application Analyst Programmer, was 10% before career banding and 8% following career banding.<sup>18</sup> While this is limited data, it does not support a conclusive finding that turnover has been substantially affected by career banding.

The DOJ does raise the question of whether the voluntary separations from the State to non-state employers was a result of employees' increased awareness of their market value outside of State government and/or the possibility that the employees who left did not like the career banding system.

Fifty percent of the other agencies interviewed, acknowledged that pay disparity between agencies was a problem with the financing of career banding, but they were unable to document such perceptions with objective data. It may be possible that career banding identified employees who had greater competencies than had been acknowledged under the traditional system and allowed agencies to correct the pay inequity that had existed. So too, it may be possible that employees who were thinking of quitting might have changed their mind once their job was career banded. At this time, these possibilities are only questions.

The North Carolina State University provided data on the voluntary turnover rate for law enforcement positions, which have been banded since July 2003. Their voluntary turnover rate for the past few years was as follows:

#### **NCSU Law Enforcement Voluntary Turnover Rates**

	<b>Pre-banding</b>	<b>Post Banding Year 1</b>	<b>Post Banding Year 2</b>	<b>Post Banding Year 3</b>
<b>Number</b>	9	3	9	1
<b>Percent</b>	20.45%	6.52%	17.78%	2.08%

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<sup>17</sup> DOJ Report, Information Technology Study 2007, "Separations and Turnover", August 24, 2007.

<sup>18</sup> Email, Don Webb, September 10, 2007.

In the first year after banding, NCSU experienced a dramatic reduction in voluntary turnover in the first year, but it climbed in the second year and then down in the third year. The University reports that the higher turnover rate in the second year was a result of a clarification of job responsibilities and resulting employee reluctance to meet performance expectations.<sup>19</sup> The University also categorized this as “good turnover”, since employees decided to leave voluntarily.

We were unable to obtain objective data on turnover rates before and after career banding from any of the other agencies/universities in the state to verify if the DOJ/DHHS/NCSU experiences were unique or a pattern.

**Recruitment** - The Office of State Personnel estimates that it cost the State approximately \$362 million to replace the 10% of employees who voluntarily left State employment in FY 2005-2006 (about \$40,000 per hire).<sup>20</sup> This cost includes the estimated hard costs of advertising, screening, selecting, (estimated at \$29 million) and training new employees and the cost of reduced productivity of a vacant position as well as that of the new hire. Some of these costs are expense items to the State and can be estimated with some certainty, whereas the time for screening, selecting, and training are hidden costs not easily calculated. To the extent that the State can reduce turnover and select better candidates, the State will be better off.

Unfortunately, the State does not keep records about the quality of the workforce (we are not aware of any organization that does keep records other than anecdotal information) that is hired under career banding versus those that are, or have been, hired under the current pay and class system. Unfortunately, there are no objective measures available in the human resources profession for measuring the quality of the workforce that could be used throughout the State for government employment. Most measures used today require a measure of productivity based on value added, which is a profit measure. No such agreed upon measure exists for government employment.

Based on the interviews of the HR Directors, there is some evidence that career banding has narrowed their focus and improved their selection process. Now, more than under the traditional system, the hiring agency is focused on competency levels and if the applicant has the demonstrated competencies

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<sup>19</sup> Special data request by FLA, Terre L. Kuiper email, October 16, 2007.

<sup>20</sup> “Compensation and Benefits Report”, Office of State Personnel, February 2007.

needed. There is a belief that among the few employees that have been hired under the career banding system, better applicants have been attracted and hired.

The Department of Health and Human Services (DHHS) reported that the number of applicants for vacancies has substantially increased following career banding. Pre banding, they reported there was an average of 21 applicants for each of 40 postings. Post banding, there was an average of 75 applicants for each of 108 postings. Some of this increase may have been due to the reorganization of IT in DHHS and the elimination of IT contractors. Certainly, if there is an increased number of applicants, the potential for increasing the quality of employees is greater.

**Grievances** – 100% of the HR Directors we interviewed indicate that grievances have decreased after career banding. One HR director claimed that he has not received one complaint regarding pay or classification issues since career banding was implemented. None of the agencies/universities could support their conclusions with objective data since they did not track these data.

**Reclassifications** - A reclassification of an employee is an examination of an employee's duties, responsibilities, knowledge and skills in relation to the classification assigned, to determine if their position has changed such that it should be classified as another job. While a reclassification is a legitimate personnel practice to assure that the employee is classified and paid appropriately to the duties and responsibilities performed, it is often used by managers and employees to obtain a salary increase, since most reclassification requests (as reported by DHHS) result in a salary grade upgrade.<sup>21</sup> Used in this way, reclassifications subvert the salary increase mechanisms approved by the General Assembly, such as cost of living increases, step increases or in range adjustments.

Because jobs change over time, reclassification is a legitimate personnel practice to keep employees correctly classified and paid equitably with other jobs in the system. However, as a result of restrictive pay practices in place in most government organizations, reclassification has been increasingly used to reward long-term, valued employees with pay increases that they could not have achieved through normal procedures. Seen in this fashion, reclassification is simply a way around the pay system and may not be related to the actual

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<sup>21</sup> Email, Don Webb, September 10, 2007.

work that is being performed by the employee. In addition, reclassifications are used when an agency or OSP redesigns the positions to make them more relevant for the current work demands or personnel requirements, such as new licensing.

The volume of reclassification requests is a symptom of a classification and pay system's health. A large volume of reclassifications indicates that the pay and class system may be less relevant to the work that is performed or that pay is not on par with market pay levels.

Data collected from OSP indicates there are a large number of reclassifications each year. From January 2002 until September 2007, there have been a total of 28,013 reclassification requests, or an average of 4,669 per year, or an average of 6.8% of the employees in the traditional classes. When the number of career banded employees (21,835) are taken out of the total number of State employees (89,708) who are in traditional graded pay and class system, this means that slightly less than half of the employees in the State have been reclassified in the last 5 years. With this trend, nearly all employees will have been reclassified in the next 6-7 years.

The result of reclassifications has cost the State additional salary dollars. In the time period since January 2002, a total of 72% of the reclassification requests have resulted in an increase in pay. While reclassifications do not automatically involve an increase in pay, the pay increase amount can vary between 5% and 20% of base pay. Thirteen percent (13%) of reclassifications resulted in a downward grade adjustment. Under current practices, a downward adjustment as a result of a reclassification review does not result in a reduction in salary.

These findings suggest that the current graded pay system is seriously out of sync with the work being performed and/or the market value of the work.

Under career banding, reclassification requests have been replaced with an assessment of an individual's competency level. For the career-banded jobs, the number of employees that have changed from one level to the next within the career band represents 1.7% of the total number of employees in career-banded classes. Career banding has resulted in a substantial reduction (from an average of 6.8% per year to an average of 1.7% per year) in the number of adjustments in classification (under the traditional system) or level (under the career banding system).



**Training** – 75% of the HR Directors interviewed did not indicate any substantial difference in training (either taken or offered) of employees under career banding. They did note that career banding requires both employee and their supervisors to develop a career development plan as something that had not been done consistently before career banding. Such a plan would identify for the employee and their supervisor both training needs and opportunities for employee competency development.

**Morale and Employee Satisfaction** - Employee morale is a common topic among government employees. We have conducted thousands of employee focus groups in a variety of large and small government organizations to investigate issues surrounding pay and classification systems. Typically, morale is characterized as very low. Employees and managers then correlate this to poor performance, high turnover and inefficient work processes.

Low morale is often associated with the following conditions:

- Managers who side with some employees and not others.
- Managers and supervisors who ask for employee input but do not act on it.
- Lack of communication to the employee.
- Blaming employees for poor work that is a result of a manager's and supervisor's failure to train, supervise or inform employees.
- Lack of follow-up and broken promises.

Morale and employee satisfaction are difficult issues to measure. Some indication of morale and employee satisfaction can be obtained from the interviews with HR directors, as well as a survey that OSP conducted among a selection of employees.

When asked if career banded employees were more satisfied with their jobs after career banding than before, 87% of the HR directors that we interviewed answered affirmatively. To augment their argument, they stated that employee grievances are down and informal complaints regarding pay and classification issues have also decreased. One HR director claimed that he has not received one complaint regarding pay or classification issues since career banding was implemented.

On July 7, 2007, the Office of State Personnel conducted a survey of State employees whose jobs were career banded and those that were not career banded. The career-banded responses were received from 463 employees (est. 2% of career banded employees) and 1121 employees in the traditional classification and grade system (est. 1.6% of graded class employees). The results indicate that on all but one question, the career-banded employees reported a more positive response than the employees who are graded in the traditional classification system. These data are shown in the following chart.

## Survey of Employees in Career Banded Classes vs. Traditional Classes

	<u>Statement</u>	Percent of Career Banded Employees Who Agree	Percent of Traditional Class Employees Who Agree
	The question is phrased in the traditional classification system language. Phrases in parentheses refer to the similar question asked of career-banded employees.		
<u>1</u>	I received information about the current classification and salary grade system (career-banding program)	77.5	40.8
<u>2</u>	The information was easy to understand.	49.3	32.6
<u>3</u>	I am satisfied that I know how the current classification and salary grade system (career-banding program) works.	46.2	28.1
<u>4</u>	I know what knowledge, skills, abilities and behaviors (competencies) I need to advance to a higher classification (level).	52.9	38.8
<u>5</u>	The training I need to develop new knowledge, skills and abilities (competencies) is available to me.	41.0	38.3
<u>6</u>	Reviews of my work are linked to my pay. (Career banding links reviews of my work with my pay.)	44.5	17.9
<u>7</u>	Reviews of my work are linked to my career development. (Career banding links reviews of my work with my career development.)	44.5	32.0
<u>8</u>	My immediate supervisor discussed my career development plan with me in the last year.	60.0	44.6
<u>9</u>	Employees should be paid for the (competencies) knowledge, skills, abilities and behaviors they use rather than how long they have been employed.	67.3	68.7
<u>10</u>	The state's current classification and salary grade system (career banding) has a positive influence on my desire to do a better job.	48.3	17.6
<u>11</u>	The state's current classification and salary grade system (career banding) influences my decision to remain employed in state government.	37.2	21.8
<u>12</u>	I prefer career banding over the old classification and pay system.	38.9*	n/a

\*Disagree equals 12.8%

Research by *WorldatWork*, the compensation and benefits professional association, has demonstrated that employee satisfaction with pay is highly related to employee understanding of how their pay is established.

“When it comes to employee pay programs, ignorance is not bliss. In fact, how little employees know about their organization’s pay structures and process is directly related to the company’s turnover, and underperformance problems...”<sup>22</sup>

The survey conducted by OSP indicates that the likelihood of employees being satisfied with pay, and the likelihood that they will remain with the State, is substantially increased with career banding. This is consistent with the research. It appears likely that one way to retain employees is to increase their knowledge of the State’s pay program. To the extent that career banding is a method that encourages communication, career banding would appear to address the issue of turnover and employee performance.

**Adverse Impact** - Claims have been made that because career banding is a more flexible system and requires increased discretionary decision-making by managers, that managers will revert to what has been called “the old boys” network, whereby friends of the manager/supervisor will receive the most pay increases and advancement opportunities. There is fear that this will produce unintended adverse impact; women and minorities will not be given fair representation.

Data has been collected on the number of career banded employees that have been assessed to be at the Contributing, Journey, and Advanced levels. As predicted by OSP when the program was initiated, the distribution of employees assigned to each of these levels forms a near normal curve.

Data has been collected among banded jobs regarding the movement from one level to another, (i.e., Contributing to Journey or Journey to Advanced) which would be considered advancement in one’s career. If the charge of adverse impact holds true, we would expect to see a disproportionate number of males and/or non-minorities receiving a greater number of competency level advancements.

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<sup>22</sup> “Survey Shows Pay Knowledge = Pay Satisfaction”, Jeremy Handel, WorkSpan, *WorldatWork*, July 2002, Vol 45, N. 17.

In terms of advancements, there have been a total of 370 advancements from one competency level to the next higher level from July 2003 to June of 2007, (this number does not include promotions as defined under career banding which involves an employee moving from one banded class to another where the new class has a higher journey level market rate). Of these 4.026% have been to whites, 2.25% to minorities. Using the guidelines of the US Department of Labor that states that if a ratio between these numbers is less than 80%, the personnel action may demonstrate adverse impact. In this case the ratio is 52.8%,  $(2.25 \div 4.03)$  indicating that minorities are less likely to advance to a higher competency level than whites. Similarly white males advanced at a rate of 3.94% while minority males advanced at a rate of 1.68%. White females advanced at a rate of 4.145% while minority females advanced at a rate of 2.74%. In both cases, the ratio shows that whites males and white females advanced at a higher rate than minority males or females. There is evidence in these data of adverse impact for minorities. There is no adverse impact for females (3.62%) versus males (3.33%) in advancement.

Salary increases to employees whose jobs have been career banded provide additional data regarding the question of potential adverse impact. From data provided by OSP, we find that among the law enforcement occupation, 46.4% of African American males and 51.4% of African American females received pay increases under the banding system whereas only 25.7 % and 29.7% of white males and females in this occupation received pay increases. In terms of pay increases minorities benefited from career banding more than whites.

The data present conflicting information regarding claims that career banding has resulted in discriminatory personnel actions. As a result, it cannot be definitively concluded that banding has resulted in reinstitution of the “old boys network.”

A question remains however, if adverse impact in advancement existed in the graded system, with all of its rules and procedures. The argument is that the graded system protected minorities better than the career banding system.

Data from OSP was obtained for the year ending in June of 2000 regarding advancements under the graded system.<sup>23</sup> We used pay increases as evidence of advancements which would be comparable to career banding advancements. In this year, 19,433 employees (25%) of the workforce received pay increases, over and above the legislatively granted increases to all employees. From these

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<sup>23</sup> Data requested by FLA from OSP, email from Carl Goodwin, October 17, 2007.

data 26.06% have been to whites, 23.09% to minorities. Using the guidelines of the US Department of Labor that states that if a ratio between these numbers is less than 80%, the personnel action may demonstrate adverse impact. In this case the ratio is 88%,  $(23.09 \div 26.06)$  indicating that minorities and whites were equally likely to advance to a higher pay level in the graded classes. White males advanced at a rate of 26.26% while minority males advanced at a rate of 21.74%. White females advanced at a rate of 25.8% while minority females advanced at a rate of 24.17%. In both cases, the ratio shows that whites males and white females advanced at about the same rate as minority males or females. There is no evidence in these data of adverse impact for minorities under the graded system for the year in question. There is no adverse impact for females (25.18%) versus males (25.05%) in advancement as measured by pay increases.

Going forward, OSP and agency HR Directors should monitor more closely any advancements under career banding to assure that such actions are well documented and valid reflections of the employee's actual competency level.

**Pay Increases** - Claims have been made that career banding will increase the cost of employment without adequate controls in place. The fear is that with broader pay bands or ranges, managers will advance employees to the maximum of the pay band regardless of the employees' demonstrated competency level, as required by OSP guidelines.

Information is available to compare the pay increases to employees in the career banded classes versus the increases to employees who are classified in the traditional pay grades. In data provided by OSP for the period of July, 2003 to February, 2007, the average pay increase granted to employees in the law enforcement occupation before banding was \$7,092. After career banding, the average increase was \$4,864. As a percent of base pay, the average percent increase was 13.4% of pay before career banding, and 14.2% of pay following career banding. (These two sets of numbers appear to be in conflict. After verification, it was determined that before career banding, the higher-paid employees received the pay increases thus resulting in a lower percent of base pay increase whereas, after career banding, the lower-paid employees received the pay increases, thus resulting in a higher percent increase as a percent of pay.)

For the law enforcement occupation, career banding resulted in smaller pay increases (in actual dollars) than what employees could have expected under

the traditional system. Thus, career banding, did not result in a higher cost to the State.

For the other career banding occupations, the results are not as clear. Because career banding has been implemented over time, with some occupations spanning several years, a clear distinction between pre and post career banding is not possible. For example, IT jobs have been banded over a three year period and data is not available to provide clear evidence.

However, excluding IT, the following effects of career banding show that over all occupations that have been career banded, the average increase has totaled \$1,236 versus \$2,365 for jobs that have not been career banded.

Clearly, these data lead us to conclude that career banding is not leading to pay increases that are greater than what the State might experience under the traditional pay and class system. In fact, one might conclude that career banding is less costly to the State than staying with the traditional pay and class system.

## Pay Increases to Career Banded Classes vs Traditional Classes<sup>24</sup>

		Banded Classes	Comparable Traditional Classes	Banded Classes	Comparable Traditional Classes	Banded Classes	Comparable Traditional Classes	Banded Classes	Comparable Traditional Classes	Banded Classes	Comparable Traditional Classes	Banded Classes	Comparable Traditional Classes
	First implementation	TOTAL COSTS FOR SALARY INCREASES (excluding LI) FROM FIRST IMPLEMENTATION THROUGH 2/28/07		NUMBER EMPLOYEES AS OF 2/28/07		NUMBER EMPLOYEES GRANTED SALARY INCREASES THROUGH 2/28/07		% EMPLOYEES GRANTED SALARY INCREASES THROUGH 2/28/07		AVERAGE INCREASE AS OF 2/28/07		AVERAGE % INCREASE AS OF 2/28/07	
AdmSup	Jun-10	\$710,990	\$2,996,214	2802	11507	402	1490	14.3%	12.9%	\$1,769	\$2,011	6.3%	9.5%
Legal	Jun-10	\$287,849	\$377,296	98	380	28	52	28.6%	13.7%	\$10,280	\$7,256	12.3%	12.4%
Soc Res	Nov-10	\$88,770	\$101,397	167	626	17	26	10.2%	4.2%	\$5,222	\$3,900	14.9%	11.3%
Law Enf	Jul-07	\$1,814,155	\$1,185,405	1263	296	373	249	29.5%	84.1%	\$4,864	\$4,761	14.2%	13.4%
Research	Oct-10	\$303,168	\$113,467	614	931	121	36	19.7%	3.9%	\$2,506	\$3,152	8.5%	8.2%
Inst Svcs	Jul-10	\$200,161	\$341,898	1149	3807	173	170	15.1%	4.5%	\$1,157	\$2,011	4.7%	8.1%
Fac Maint	Jan-11	\$136,532	\$222,608	344	2377	92	142	26.7%	6.0%	\$1,484	\$1,568	4.5%	4.7%
V-E Opr	Jan-11	\$25,775	\$24,288	767	681	12	16	1.6%	2.3%	\$2,148	\$1,518	6.8%	4.3%
TOTALS		\$3,567,400	\$5,362,573	7204	20711	2886	2267	40.1%	10.9%	\$1,236	\$2,365		
*First implementation occurred 5/04 under current structure; does not include ITS activity prior to then under pilot structure.													

<sup>24</sup> Data request by Fox Lawson & Associates of OSP, August 2007.



Our interviews with agency HR directors confirm that career banding has highlighted the market pay disparity more clearly than the traditional system, and that they were committed to correcting the differences to the extent that money was available. They also confirmed that in the graded system, it was very difficult to determine if the employees were paid too little, about right or too much, in relation to the market. They attributed this problem to difficulty in identifying the appropriate market for jobs using the graded system.

At least one large department decided not to career band their jobs because they believed that their employees were severely underpaid in relation to the market. Their reasoning was that if they career banded their jobs, there would be pressure from employees to correct the deficiency. By their own calculations, this deficiency was so great that they could not afford to make the needed corrections. Nor did they believe that the General Assembly would grant them funding to make the compensation adjustments. Such a conclusion was reached in spite of a 39% turnover rate in the first year of employment of their most critical jobs. How much of this turnover rate is a result of pay that is not at market rate, or new management practices, is not fully known. Nonetheless, if the agency were able to reduce turnover to half of its current rate, by paying closer to the market rate, the savings generated from reduced hiring and training costs (estimated by the OSP at about \$40,000 per new hire) would pay for about one half of the difference between current pay and market level pay.

This same agency did career band their IT jobs, like the rest of the State agencies. However, because they had not experienced employment issues in this occupation and they were not considered mission critical jobs in their agency, they did not make market adjustments to these jobs.

Similar comments were made by other HR directors who career banded their jobs but did not make significant pay adjustments. For those that did make pay adjustments, stated reasons include:

- Mission critical jobs.
- Unacceptable turnover experienced.
- They believed that it was in their best interests to pay employees a competitive market rate to the extent that they could afford it.

Pay does not appear to be strongly related to turnover or vacancy in the State. Using data from the OSP annual reports for the years 2005, 2006 and 2007, we analyzed the extent to which State pay is above or below the market rates and the degree of turnover and vacancy rates in selected benchmark jobs.

We found a small correlation between increased pay in one fiscal year and a subsequent reduction in the vacancy rate in the next fiscal year for the same job. Further, for jobs in which the turnover rate is higher than the average of the State (about 9%), the State pays an average of 11.5% below the competitive market rate, but for jobs in which the turnover rate is less than the State average, the State pays only about 7% below the market average.

We believe these data are not strong enough to claim that pay levels have a direct and causal impact on turnover or vacancy rates. Other factors may also be at work here, such as work environment, capability of supervisor, location, and other considerations. Common wisdom, and even anecdotal evidence from the 80% of the HR Directors interviewed, supports that conclusion that turnover and vacancy rates increase the further below market pay levels the State pays.

**Other Issues** - One of the issues that emerged as a part of our research was the link between performance and turnover. In the Human Resources Annual Report, 2006, OSP analyzed the relationship between turnover and employee performance ratings over a seven-year period. This report found that between 37.5 and 57.4 percent of the employees who left state employment were rated in the highest two categories of performance: very good and outstanding. Regardless of how the performance evaluation system may be used, these results show that the employees that are more likely to stay with the State are the ones that do not perform as well other employees.

From this evidence, it could be concluded that the State is the place where the poorest performers will most likely choose to make their careers.

## **ERP Implementation - BEACON**

BEACON (Building Enterprise Access for NC's Core Operation Needs) represents a statewide project in North Carolina to implement SAP's Enterprise Resource Planning (ERP) software over a 7-10 year period. In general, the new ERP system is intended to convert independent legacy systems with limited data exchange to an integrated system with cross-functional reporting capability.

The ERP system implementation will eventually address Data Warehousing, Budgeting, Financials, and Tax and Revenue applications. There are three scheduled phases to the HR/Payroll application roll-out:

- Phase I - The HR/Payroll Phase I implementation slated for 2008 includes:
  - Personnel Administration
  - Organizational Management
  - Benefits Administration
  - Time Management
  - Payroll
  - SAP Portal
- Phase II - Phase II of the HR/Payroll system implementation scheduled through 2009 would include Training and Events Management and the SAP on-line learning system.
- Phase III - If a decision is made to go forward with Phase III of the HR/Payroll system, eRecruiting is scheduled to be launched simultaneously with Phase II.

North Carolina requires that employee data be captured for all employees by a single system. Currently, the Personnel Management Information System (PMIS) developed over 30 years ago, responds to the mandate for a single system.

The PMIS is a legacy application supported by the Office of State Personnel (OSP) with limited resources to support enhanced or additional technology, which has resulted in limited integration of HR data with multiple payroll systems. The PMIS further suffers from limited compatibility with university data feeds necessary to produce statewide HR reports.

The HR/Payroll initiative is the first module of the ERP system to be rolled-out between January and April of 2008 and is designed to apply leading technology and business practices to the human resource needs of the State. The initiative is intended to provide a foundation for human resource and payroll management, efficiency, and decision-making based on, in part, enhanced and timely access to critical information.

To address, among other issues, the limited integration of North Carolina's HR and payroll systems, the State elected SAP's ERP HR/Payroll module to replace legacy HR systems.

Specifically, the HR/Payroll system implementation is intended to:

- Allow employees a more seamless experience when addressing the HR/payroll processes.
- Increase employee access to information related to career and benefits decision-making.
- Move employee HR and payroll transactions closer to the point of origin.
- Make the HR and payroll processes more efficient.
- Make the State of North Carolina more productive.
- Support important HR and payroll management activities with a consolidated repository of information and common data elements.
- Provide greater flexibility in responding to changing HR and payroll needs.
- Eliminate duplicative processes and systems.
- Provide more timely access to payroll and HR transaction information including reports on demand and the ability to download SAP data into Excel or SAS to analyze in concert with data from other systems.

### **Advantages/Disadvantages**

BEACON presents significant advantages to the HR process once implemented including:

- Extension of access to HR information from the current 2,700 PMIS users to a much larger base of managers, supervisors and employees dependent upon the permissioning defined by each agency for SAP's role-based security.
- Increased standardization and productivity by automating many manual processes.
- Statewide secure, web-accessible, flexible data reporting with easy to use report functionality with less reliance on fragmented data input.

- Strategic workforce planning enablement based on greater access to standardized consolidated information for HR administration, budgeting, programming, etc.
- Best practices and knowledge exchange providing for possible cost savings and strengthened operations.
- Enhanced real-time oversight capability for the Office of State Personnel to monitor and provide consultation to agencies with delegated HR authority increasing statewide consistency and compliance with Chapter 126.
- Technology and data support at the supervisor and employee level to further enable modern and competitive approaches to human capital management such as career banding.
- Employee empowerment to make informed HR and career decisions based on access to timely information.
- Role-based training for employees on the business processes surrounding the use of SAP providing additional and reinforced instruction on HR procedures and processes.
- Improved security for sensitive HR-related employee data.

BEACON disadvantages related to the HR process include:

- Continuation and/or proliferation of multiple HR processes and systems during phased implementation requiring redundancy in support and administration.
- Disruption of HR process routine and strategic efforts to focus on technology implementation issues to the exclusion of, in some cases, career banding and other initiatives.
- Sub-optimal consolidation statewide due to the “out of scope” status of some of the universities which use a different ERP application.

- Limited accommodation during implementation of career bands requiring conversion for each new occupational group (although full implementation may accommodate automation of career band competencies).
- Potential for employee dissatisfaction and/or grievances due to greater access to information regarding their jobs versus those of others.
- Possible productivity loss and cost due to increased emphasis on training related to BEACON and career banding.
- Possible upward “creep” in performance grading due to increased visibility of supervisor ratings within their organizations.

## **Integration with Universities**

Although the universities in North Carolina fall under the jurisdiction of the State Office of Personnel, many utilize an ERP system called Banner and disparate payroll systems are installed. Limited university integration with BEACON will begin July 2008.

Currently, required statewide reporting involves the consolidation of PMIS data with that provided by the universities. As the BEACON initiative is currently envisioned, nine of the sixteen universities will eventually be utilizing the standard SAP applications.

As a result, production of statewide HR reporting will continue to require the combination of data from fragmented sources to incorporate much of the university data. However, the consolidation process may be more automated under BEACON than is the case currently.

## **Effects on HR Processes**

- Career Banding – Although BEACON may be impeding the roll-out of career banding during the implementation of the HR/payroll modules, the application will provide support to the process once on-line by:
  - Extending access to HR management information to managers and supervisors charged with management of employees within career bands.

- Providing standardized electronic structure for decentralizing certain HR practices associated with career band transactions potentially allowing HR professionals to shift time and talent to more strategic tasks.
- Giving agencies greater access to timely comparative information regarding career banded and traditional jobs related to understanding the status of attrition, impending retirements, trends in compensation, grievances, recruiting, etc.
- Allowing employees greater access to and understanding of the competency expectations of their jobs and their ability to manage their career progression.
- Providing the State enhanced and timely information regarding the impact of career banding on employee job satisfaction, retention, acquisition of needed training, etc.
- Diminishing the time involved to provide career banding documentation by automating some of what is currently captured with manual processes.

There is consideration of enhanced capture of competency information once the initial HR roll-out is complete.

- Recruitment - eRecruitment is out of scope for 2008 HR/payroll implementation. However, a separate rollout of an eRecruitment feature was funded in the 2007 budget with deployment anticipated in the future as a Phase III to be conducted simultaneous with Phase II applications.

On-line employment application processes often produce a more efficient hiring conduit with dramatic increases in the number of qualified applicants. Such a feature would automate and standardize the recruiting process improving the applicant experience by increasing access to recruiting information and potentially reducing the time to hire. The eRecruiting feature would address requirements such as:

- On-line posting and viewing of vacancies with position descriptions, job classifications, salary and recruiting ranges with links to appropriate agencies.

- On-line employment application with a “one organization” ability to apply simultaneously for multiple positions and use resume format of choice.
- Tracking of posting history and the ability to send postings to other sites on an automated basis to source talent.
- Recruiter ability to track and document all activities related to a pursuit including actions taken and status of requisition.
- Automated analysis of applicant qualifications in comparison to position requirements.
- Tracking of interviews, offers, comments, communications and disposition/status of pursuits.

It is our belief that eRecruitment could eventually save the State about \$15 million in current hard costs of recruiting and hiring employees through the elimination of advertising and associated costs of hiring employees, in addition to speeding up the process by filling positions faster.

To the extent that the current BEACON roll-out supports career banding linked to a focus on training and skill acquisition and other competitive initiatives attractive to applicants, recruiting may be positively impacted.

- Turnover - BEACON may have an indirect positive impact on turnover by:
  - Showing total compensation of each position.
  - Empowering employees with career-based information improving employee satisfaction.
  - Allowing the redirection of agency resources toward higher value services improving job satisfaction.
  - Increasing the perception of the State as a competitive employer possibly reducing the attractiveness of other offers as a result of the total compensation information.



- Offsetting attrition, to a limited degree, due to automation and new efficiency in process requiring fewer employee hours devoted to manual HR and payroll operations.
- Class and Compensation – BEACON will provide the traditional class and compensation system many of the benefits previously discussed under career banding including:
  - Enhanced automation of current manual (but provided for in PMIS) process creating enhanced efficiency.
  - Greater access to more timely information for HR and employee decision-making.
  - Standardization of job descriptions and other HR forms for use in career management.
- Grievances – Discussion suggests that employee grievances may be impacted by BEACON as follows:
  - Concern has been raised that the transparency of HR information occasioned by BEACON may provide employees with more comparative data points to use in developing grievances. It may also provide managers with a greater number of reference points in developing their responses.
  - Increased access to information and career management may have an offsetting positive impact on employee satisfaction and retention.

## RECOMMENDATIONS

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Because of the complexities and inter-relationship of all aspects of the State's personnel system, we recommend that the General Assembly focus on the broad policy issues relative to personnel management as set forth in Section 126-1 of the NCGS. Issues related to what job classifications should be career banded or other specific issues should fall to the Personnel Commission and the Director of the Office of State Personnel as set forth in Sections 126-3 and 126-4 of the NCGS. This will eliminate confusion and conflicts in terms of policies that are designed to impact one element of the system but, in fact, directly impact the State's ability to effectively manage its personnel system.

The following are findings and recommendations presented for legislative consideration in specific categories as follows.

### **Recruiting**

#### **Findings**

The State Personnel Act covers approximately 90,000 employees within the University system and the general operating agencies. Over the past three years, the State has had an average voluntary employee turnover of 9.18% per year. The private sector reports approximately 23% annual turnover. The difference reflects the historic trend that public sector organizations are better able to retain personnel than the private sector. (This may be a result of multiple factors including reduced performance expectations, career and life style compatibility and employee values symmetry with State values). The turnover rate is expected to continue, if not increase, for several reasons including the changing demographics of the workforce.

The U.S. Census Bureau reports that within the next five years (by 2012), approximately 80 million workers will exit the workforce due to retirement. Unfortunately, there are only approximately 50 million workers in the pipeline to replace those exiting the workforce. Given the difference in the number of prospective workers and the number of workers that will be needed, one can easily see that there will be increasing demand for the available workers and change in how work is performed or a significant redirection of what types and level of services the government should provide (and that assumes that this population is qualified to perform the work that is needed.)

Traditionally, State government offers a level of job security that is greater than the security offered to employees in the private sector. This level of security is generally perceived as the greatest recruiting benefit that the State has to offer prospective employees. However, as fiscal resources have diminished, the level of job security is not as great as it once was.

Studies have also shown that younger workers do not seem to have the same motivations and interest in traditional careers. Rather, they are more interested in challenges and the opportunity to make a contribution within a relatively short period of time. Consequently, organizations such as the State of Vermont are now focusing their recruiting efforts directly at this demographic including the opportunities for challenge and personal growth.<sup>25</sup>

Following are issues that we identified relative to the recruitment process:

- To meet the growing need for new personnel in State service, we find that recruitment is generally not a proactive process.
- Each agency and university campus generally does its own recruiting and there is no central repository or centralized applicant process.
- The recruiting process takes longer than necessary. Currently, the State averages 76.5 days to fill a position. Other governments report an average of 49 days.
- While the State allows for a three week overlap in a single position for training new employees, often times retiring employees do not offer their manager the potential to stay on to perform the training. They turn in their retirement notice and leave without regard for the next person. This results in substantial loss of institutional memory. Recent law also does not give the managers much flexibility because it limits a retiring employee from returning after a lapse of employment of six months. Other states have 1-30 days.

The Internal Revenue Service has two restrictions that affect this change:

- There must be break in service between retirement and returning to work. (The IRS had not defined a break in service).

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<sup>25</sup> "The Young & the Restless", Zach Patton, Governing, September 2007, p. 50-53.

- There cannot be a pre-existing agreement between the employee and employer to return to work.

The State could shorten the six-month break in service for State employees since there are no federal laws restricting such a change. Currently, the local retirement fund allows a shorter 30-day break in service. By the current law, the State has therefore encouraged the loss of institutional memory.

- A lack of funding for compensation may be causing current employees to seek other opportunities. Other reasons that employees leave is lack of promotional opportunities and managers who are untrained and unable to manage subordinates.
- Approximately one-half of all State agencies still use paper applications rather than allow for electronic filing of applications. Evidence from the Federal government and other states find that web based applications not only streamline the application and hiring process, but applicants prefer it and hiring managers allows them to find better applicants.<sup>26</sup>
- While a wide salary range is often advertised for a position, the hiring agency generally is in a position to only offer the minimum rate of pay thereby negating the value of a recruitment process that solicits applicants that may have more than the minimum qualifications.
- Recruiting does not focus on future job needs. Rather, most recruitments focus on the work, as it currently exists. Because of the changing nature of work within the State, the result is selection of employees who may not be prepared for the State's future needs. A selection of applicants based on competencies rather than years of experience would alleviate some of these issues, as would a process that encourages workforce planning and assessment, such as career banding when it is applied correctly.
- Agencies are limited in their use of salary reserves (the difference between budgeted salary for a position and the hiring rate for the position.) As a general rule, agencies can use the difference between budgeted salaries and actual salaries when making a hiring offer. Unfortunately, smaller agencies tend to have less flexibility since the dollar amounts are more limited. In

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<sup>26</sup> A Revolution in Public Personnel Administration: The Growth of Web-Based Recruitment and Selection Processes in the Federal Service, Jared J. Llorens and J. Edward Kellough, Public Personnel Management, Volume 36, No 3, Fall 2007.

addition, larger agencies that have substantial turnover because compensation levels are not competitive with the market do not have sufficient funds to adjust compensation to meet labor market demands. Lapsed salaries (the amount of money that results from a vacant position) are further restricted in that these funds can only be used for one-time expenses and cannot be used to address labor market compensation issues, such as hiring bonuses, moving expenses or other incentives. At times these unused funds are “raked” back for reallocation, even when they could be used to address workforce needs. Conversely, the university system is given wider latitude in its use of funds.

In 2006, the International Public Management Association for Human Resources (IPMA-HR) conducted a Recruitment and Selection Benchmarking Study<sup>27</sup> to assess best practices within the public sector. The survey results reflect input from 236 organizations covering several million employees. Following are key findings from that survey:

- More than one-half, but less than two-thirds, of the respondents have begun to address the possibility of worker shortages due to the retiring baby boom generation. The agencies and universities within the State of North Carolina have not been proactive in addressing this issue.
- Of those making changes, 38% said that they have created training programs for current workers, and 23.7% said they have created flexible schedules to allow retirees to work longer or return to work. Another 15.3% have created mentoring programs.
- 58.4% of survey respondents report accepting applications via the Internet. While only one percent of applications were received via this means in 2000, the number has increased to 20% in 2006 with 22.3% of respondents reporting rates that exceed 90%. This is clearly a reflection of the changing demographics and the comfort level of job applicants relative to on-line applications. Only about half of the agencies in the State of North Carolina accept applications via the Internet. The State has not been proactive in this area, to the detriment of the agencies/universities with vacancies and high turnover rates.

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<sup>27</sup> “2006 Recruitment and Selection Benchmarking Study”, IPMA-HR.

- 14.3% of organizations conduct at least 75% of their communication with applicants via email.
- The average or mean number of days from notification of vacancy until a selected candidate reports to work is 49 days although there is a slight deviation based on occupation. For example, public safety positions take an average of 57 days while labor and trades jobs take an average of 44 days. The average number of days from notification of a vacancy until a selected candidate reports to work within the State of North Carolina is 76.5 days.<sup>28</sup>
- Nearly 40% of respondents report spending 80% or more of their advertising budget on traditional print media (magazines and newspapers) versus on-line advertising (less than 20%). However, 46% of all applications received and 39% of all hires result from the agency web-site rather than the more traditional sources. The State of North Carolina continues to rely on traditional print media and posting of jobs on individual agency web-sites as the primary vehicle for applicant recruiting.

According to the *WorldatWork* 2007-08 Salary Budget Survey, two types of bonuses, sign-on and referral, are the most frequently used recruiting tools and 65% of organizations reported they are using market adjustments to help attract and retain talent.<sup>29</sup> Popular tools identified by survey participants included:

- Sign-on/hiring bonuses – 70%
- Employee referral bonus – 66%
- Market adjustments/increase to base salary – 65%
- Flexible work schedules – 62%
- Spot bonus – 46%
- Retention bonus – 38%

## Recommendations

Career banding, when and where available, is a positive tool in creating larger pools of applicants due to greater flexibility in terms of potential assignment and compensation. Consistent with contemporary and best practices, we recommend:

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<sup>28</sup> Governing Magazine, Question 32.

<sup>29</sup> “Workspan”, *WorldatWork*, September, 2007.

- The recruitment and hiring process should be made more efficient through use of an automated application filing process that will allow an applicant to submit an initial application one time for positions with any or every State agency. Although not currently scheduled, this can be accomplished through implementation of eRecruitment as part of the 2008 HR/payroll implementation or sooner as part of the Phase II BEACON implementation. This feature of BEACON would automate and standardize the recruiting process and provide for on-line employment application and tracking.
- Advertising for vacant positions should reflect realistic hiring rates and salary ranges that are market competitive.
- Contract with national job posting firms in order to obtain the widest possible circulation regarding job vacancies within the State. Entering into a single, statewide contract, rather than having each agency do their own recruiting and contracting should reduce the per-posting cost. Use of these national job boards could be limited to specialized or hard to recruit positions in order to control the cost.
- Engage with the media and use other marketing techniques to raise the public perception of State employment including the significance of the work being performed as well as competitiveness of State salaries and benefits to the private sector.
- Consistent with the requirements of Section 126-7, revise the budgeting process (will require budget legislation, as well) so that all positions are budgeted at the market compensation rate for the job classification. Allow operating departments and agencies the flexibility to use budgeted salary dollars as needed for compensation purposes but limit the department or agency to the total dollar amount budgeted for accomplishment of the work required and the number of positions authorized, consistent with the latitude currently enjoyed by the university system. This will incent department managers to use the available resources more judiciously and substantially reduce the amount of time spent trying to work around the system.
- Provide for staff overlap in the same position to train a new employee before the exiting employee leaves. The amount of time for overlap would vary by job complexity but should be limited to three months. The estimated salary and benefits cost of this overlap should not exceed \$11 million per year, if all

employees who leave State employment are retained for a full three months at their current compensation and benefits levels.

- Reexamine the requirement that retiring State employees may not return to work within six months of retirement. The current legislation guarantees that valuable institutional knowledge will be lost. This can be coordinated with the next recommendation.
- Use a phased retirement process over a period of time to encourage transfer of institutional knowledge from exiting employees to others. This means that an employee (for example) would reduce their workload to 50% and be eligible for 50% of their pension during this transition period. Other organizations have a sliding time period for up to 3 years. This practice is used in higher education. There are no current regulations from the IRS that prohibit adopting or encouraging this practice.
- Allow the use of recruitment bonuses, moving allowances, retention bonuses, and other incentives that have been proven to be successful in other public agencies and in the private sector.

## **Turnover**

### **Findings**

As previously discussed under Recruiting, a 9.18% voluntary employee turnover has been experienced over the last three years for State employees covered by the State Personnel Act which compares to a private sector annual turnover rate of approximately 23%. The changing demographics of the workforce and the upcoming retirement of the “baby boomers” predicts a significant challenge going forward to compete for a more limited number of prospective workers to replace those exiting the system.

### **Recommendations**

- We recommend that departments and agencies be given the latitude to use budgeted resources in a more flexible manner as outlined previously. This will allow compensation levels to be adjusted for incumbent employees as necessary and appropriate, (and with appropriate reviews by agency HR, or OSP review in some cases) within available resources. This should also reduce the turnover of personnel. This should not result in any increase in cost to



the State since agencies would still be limited by the amount budgeted for salaries.

- We also recommend that the State become proactive in terms of developing its workforce for the future. For example, the State of Washington is planning workshops designed to attract potential applicants to State service as a career given the fact that vacancies are occurring at all levels and in all job families.<sup>30</sup>

## **Training**

### **Findings**

Chapter 126 is generally silent on the subject of employee training and development. Notably, Article 6, Equal Employment and Compensation Opportunity; Assisting in Obtaining State Employment appears to be the only section that requires any form of employee training. Specifically, Section 126-16.1 requires that each newly appointed supervisor or manager be enrolled within one year in the EEO Institute operated by the Office of State Personnel. It also encourages current managers and supervisors to enroll and participate in the Institute. Significantly, there is no other requirement that supervisors or managers receive training related to their role in managing the work and personnel of the State of North Carolina. One might conclude that the only topic for training that is of concern to the General Assembly relates to EEO. (One might also expect a more diverse workforce than the population of the State, as well as fewer grievances or disciplinary actions than other states).

While EEO is definitely an important topic, other topics are of equal significance in terms of achieving the overall goals and objectives of each agency and the State Personnel Act.

Through interviews and focus groups conducted with employees, managers, human resource managers, agency directors and university chancellors, we find that the State does, in fact, provide opportunities for training and career development to those who either seek such training or where an agency believes such training is essential to the performance of its assigned function.

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<sup>30</sup> “Event Planned in Washington State Will Focus on Public Service Career Opportunities”, IPMA-HR Bulletin, September 6, 2007.

The Office of State Personnel does provide management training to those who enroll in the Certified Public Manager training program and participants report that it is a very good program.

In private sector organizations, it is common practice to require a minimum number of hours (20-40) annually of job related training. The American Society for Training and Development (ASTD) survey reported an average of 41 hours per employee was devoted to training each year.<sup>31</sup> For technical personnel, the training would be focused on technical skills. For supervisory and management personnel, the training would focus on skills needed to perform supervisory and management duties. The average annual expenditure, per employee (2005) in organizations with at least 70,000 employees, was \$1,424.<sup>32</sup> This equates to 2.2% of payroll. Private sector employers view training as an investment in their organization that, over time, will pay a significant dividend in terms of reduced turnover, greater employee satisfaction, and fewer grievances and disciplinary actions.

Employees in selected departments/agencies within the State report that time off is allowed to participate in training programs when necessary although outside of the universities, public safety and DENR, there is a perception that training is not important and time off work to participate in training programs is generally not made available. It is also clear that most agencies do not promote training. When it is available, there are often difficulties getting the time needed to participate in the program(s). This can be a problem for those who must retain certifications. As outlined above, the only mandatory training for most employees relates to compliance with specific policies such as EEO. Training to improve the managerial skills needed by managers and supervisors to perform more effectively is limited.

Implementation of new administrative programs, including career banding, requires training. Although the amount of process training is no greater than that needed to implement other programs or systems, such as BEACON, career banding focuses new emphasis on management skill acquisition for supervisors. Without adequate training, any program or system is destined for problems, if not failure.

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<sup>31</sup> American Society for Training and Development, "State of the Industry in Leading Enterprises", 2006.

<sup>32</sup> American Society for Training and Development, "State of the Industry in Leading Enterprises", 2006.

In the private sector, the Institute for Corporate Productivity reports that 60% of companies have established career development programs including formal mentoring programs for 41% of them. About 80% of companies without formal career development programs plan to add one within the next two years.<sup>33</sup>

In addition, lack of adequate training may be linked to North Carolina's recruiting and retention issues and may impact employee satisfaction.

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<sup>33</sup> "Internal Mentors and Coaches are Popular", HR Magazine, September 2007, Vol. 52, No.9.

## Recommendations

The General Assembly should provide resources so that all supervisors and managers can become proficient in skills that were not learned while performing the technical duties of their occupation. The assumption that because an employee is good at the technical aspects of the job, they are qualified to be a good supervisor and/or manager has been proven to be false. Without adequate resources to groom supervisors and managers, the number of grievances, as well as negative perceptions about the quality of management by employees, and by policy makers, will continue.

- At an absolute minimum, resources needed to allow employees to achieve and/or maintain required licenses and certifications would be in the State's long-term best interest.
- To address safety concerns expressed by employees at risk from custodial populations such as prisons, probation and mental health facilities, consideration should be given to allocating resources to such agencies to increase the frequency of physical and related training. An increased training focus may improve recruiting and turnover issues associated with same job classes.
- In addition to extending resources to promote training, the General Assembly might address new approaches to the structure of training. Legislative consideration should be given to funding pilot projects to extend university and other e-learning networks and content to North Carolina's State agency employees. OSP might identify specific areas of agency training deficits and needs and facilitate the linkage with universities to design customized programs modeled after training partnerships established by private sector companies with universities and community colleges.

Employees in rural areas have noted travel time and cost of making frequent trips to Raleigh as barriers to accessing needed and desired learning opportunities. Employees, in general, have cited additional training as key to career advancement and time from duties as a barrier to attending available training.

Facilitated on-line learning is faster, lower in cost, more flexible and accessible than traditional classroom training. Use of interactive on-line tools coupled with facilitated learning options would optimize the value of North

Carolina's human capital and empower employees to take control of their career paths.

Once developed, such a system may diminish overall training cost associated with travel to training centers and could be used to leverage further the State's wealth of subject matter expertise embodied in North Carolina's educators and other experts.

Professional and career development is going to become increasingly critical for the State in order to have the leadership skills necessary in the years ahead.

## **Discipline and Appeals**

### **Findings**

Article 8, Employee Appeals of Grievances and Disciplinary Action specifies the manner in which the disciplinary process is to be administered. Section 126-34 grants career State employees the right to grieve for reasons unrelated to unlawful harassment or adverse impact with a process to follow up to, and including, appeal to the State Personnel Commission.

Through interviews and the focus group process, we conclude that most employees either understand their appeal and grievance rights or know where to go to get the necessary information. There also appears to be a perception that OSP provides sufficient guidance to execute the process. Unfortunately, there is a lack of training/understanding of performance management as outlined in Chapter 126 resulting in the filing of grievances for receipt of less than outstanding ratings for meeting of minimum requirements of a job.

Over the past three years (2004 – 2006), there have been 862 disciplinary actions filed within the State or agency. Of the 288 filed in 2006, 164 (56.4%) were upheld, 36 were resolved in favor of the employee, 32 were withdrawn and 22 were dismissed. Thirty-six (36) are still pending.

In 2006, there were 34 appeals involving disciplinary action filed with the Office of Administrative Hearings. During that year, 155 total appeals were resolved, but this number likely includes those filed prior to 2006. Of this number, 56 cases went to the State Personnel Commission for a decision. In the other 112 cases, the State Personnel Commission accepted the Administrative Law Judge's decision.

Of the 56 that were decided by the State Personnel Commission, 11 were ruled in favor of the employee, and 45 for the agency. An Administrative Law Judge's decision was reversed in 4 cases heard by the State Personnel Commission.<sup>34</sup>

This process is slow, time consuming and expensive for employees and the State.

From a best practice perspective, we find that the current process includes elements that are generally inconsistent with "best practices" in both the private and public sectors. For example, contemporary organizations make substantially greater use of mediation as a tool to resolve issues. The current methods used by the State are very traditional and emerged from the industrial model of management. As organizations have adapted to the changing demographics and market conditions, so have their administrative processes and procedures.

While the State has a mediation program, it is voluntary. The program has trained over 125 mediators and is governed by administrative rules. Presently the program appears to be very successful; 52% of the grievances have been resolved in the first step of the process.

## Recommendations

- Provide mediation and/or counseling to individuals who are considered to be substandard or misbehaving as the sole grievance mechanism beyond the agency director. Consider amendment to Section 126A-69 to require mediation as the final step in lieu of hearings. Such counseling or mediation would provide an opportunity for employees to exit gracefully, if appropriate or necessary, and reduce the number of appeals/grievances filed.
- The State should also expand its supervisory, management and leadership training programs to include, among other topics, basic performance management training thereby increasing awareness about the use of "good" rather than "outstanding" ratings for minimally compliant personnel. This should also reduce the number and frequency of grievances.

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<sup>34</sup> Information requested of OSP by Fox Lawson & Associates, LLC, September 2007. Personnel Function Reports (SB886).

- Eliminate demotion as a form of discipline. If issues cannot be resolved between an employee and management, demotion only aggravates the problem. Possible outcomes of the mediation process could be voluntary demotion by the employee or termination of the employee. The current three step process is excessive and only serves to aggravate a situation that could be resolved sooner if both parties were forced into finding a resolution earlier in the process.

## **Classification and Compensation**

### **Findings**

For any compensation program, including the classification system, to be effective, its purpose must be clearly defined. It needs to be perceived as being fair by employees at all levels. This is only possible if the system is clearly understood by all stakeholders.

The classification and compensation systems should also support the overall goals and objectives of the organization. Unfortunately, the classification systems in most government organizations have evolved rather than developed to meet strategic objectives. The current State of North Carolina job classification system has more than 5,000 classifications although only about 3,500 are currently in use.

The State has specified in Chapter 126 that its compensation program should compensate its employees at a level sufficient to encourage excellent performance and to maintain the labor market competitiveness necessary to recruit and retain a competent workforce. However, based on market compensation data, the State's overall compensation levels have trailed the market by an average of 7.53% over the past four years. While progress is being made to pay closer to the market, the State's overall track record in this area is not encouraging.<sup>35</sup>

As outlined in previous sections of this report, this study was precipitated by a concern about the direction in which the State was moving. Through this study process, we have found that:

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<sup>35</sup> "Compensation and Benefits Report", February 2007, North Carolina Office of State Personnel.

- Many feel that the current job classification system is “archaic” and does not adequately reflect the nature of jobs today versus historically.
- There is a perception that there are too many job classes and that the classifications overlap, making it difficult to distinguish one job classification from another.
- Classification is perceived as somewhat meaningless since there is no budget to recognize differentiation in either performance or modifications in work process or skills.

In a 2007 Total Compensation Benchmarking Survey conducted by IPMA-HR, we find that 78% of all organizations have a defined pay philosophy.<sup>36</sup> This is an increase from 64% that had a defined pay philosophy in 2000. (North Carolina does not number among the majority relative to having a defined pay philosophy although Section 126-7 does specify that it is the policy of the State to compensate its employees at a level sufficient to encourage excellent performance and to maintain the labor market competitiveness necessary to recruit and retain a competent workforce.) Other key findings from that Benchmarking Survey include:

Hiring bonuses are most commonly used at the federal level.

- Less than half of the organizations (approximately 45%) use any form of variable pay. Of those that do, pay for performance is the most common approach (40%) with skill based pay being the second most common approach (10%).
- There is a strong correlation between funding levels and the perceived success of the variable pay program.
- 15% of organizations utilize broadbanding throughout the organization, although 73% report broadbanding at only the higher levels of the organization, 68% report broadbanding only IT positions, and 62% broadband only professional positions. Broadbanding is least likely to be used in the labor/maintenance field (43%), skilled trades (43%), and public safety (32%) although these numbers are still significant. Federal agencies

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<sup>36</sup> “2007 Total Compensation Benchmarking Survey”, IPMA-HR.



tend to use broadbanding more for upper level jobs while cities and counties tend to broadband all job families.

- .02% of organizations have a gainsharing program in place.

Over the past three to five years, variable pay programs have increased in popularity among public sector organizations. Of note, only 30% of survey respondents said that their programs were more than 10 years old. Performance evaluation and performance management systems have been used in the private sector with considerable success for many years. Research has shown that private sector organizations that have an established performance management program do better (as measured by profits and related financial measures) than those companies that do not have such systems in place. Government managers want to reward top performers, and consistent with evidence from the private sector, one must conclude that variable pay systems motivate public sector employees. While there are both individual and group based incentive programs, Chapter 126 specifies that State of North Carolina employees are to be rewarded on an individual basis. The key to individual-based programs is the focus on the individual. Individuals can control their own behavior, and given some feedback about behavior that is good and that which needs improvement, the employee will chose to improve.

A recurring issue with any variable pay program is funding. In order to be successful, or at least have a chance of succeeding, a variable pay plan must have adequate funding. Most respondents (40%) report a funding level of between three and five percent of payroll. Federal agencies report funding up to 10% of base pay. The data also shows that funding below one percent of payroll is simply too low to have an impact and employees are probably not going to be affected by the program. Without sufficient funding, employees do not perceive the rewards to be sufficient to justify the additional efforts that are needed to be successful.

## Recommendations

- The State should complete the implementation of career banding across all of positions and job families. We do not believe that the current classification system can be modified enough to help address the issues of recruitment, performance and workforce planning to the same degree as career banding. For the limited number of classes in selected public safety positions such as corrections workers, which may not be easily incorporated

into a career band system, simplify the classification structure so that they can be managed using the same basic rules that are being designed for the career band system.

Ultimately, the objective should be to reduce the number of classes by focusing solely on the type and the level of work being performed.

- The General Assembly should authorize agencies to use all available resources that have been budgeted to address compensation issues within their agency. This includes both salary reserves and lapsed salary dollars. When allocating new resources for compensation increases, the amount should be at least three percent with five percent being a target number. This approach would be consistent with the latitude given to the university system to manage its human resources.

## IMPLEMENTATION RESPONSIBILITIES AND COSTS

Below, we have consolidated our recommendations and outlined who should be primarily responsible for implementing the changes and the estimated cost and time frame.

Recommendation	Primary Responsibility	Estimated Time Frame	Estimated Cost
<b>General</b>			
1. Modify Chapter 126	General Assembly	2008	No cost
<b>Recruitment</b>			
1. Automate the application filing process.	OSP	2008-2009	Part of BEACON
2. Advertising for vacant positions should reflect realistic hiring rates and salary ranges that are market competitive.	Agencies Universities	Now	No cost
3. Contract with national job posting firms in order to obtain the widest possible circulation regarding job vacancies within the State.	OSP with agencies universities	2008-2009	No cost
4. Engage with the media and use other marketing techniques to raise the public perception of State employment including the significance of the work being performed as well as competitiveness of State salaries and benefits to the private sector.	OSP	2008-2009	No cost

5. Revise the budgeting process (will require budget legislation, as well) so that all positions are budgeted at the market compensation rate for the job classification.	General Assembly	2008	No cost
6. Provide for staff overlap in the same position to train a new employee before the exiting employee leaves.	General Assembly	2008	\$11 million
7. Reexamine the requirement that retiring State employees may not return to work within six months of retirement.	General Assembly	2008	No cost
8. Use a phased retirement process over a period of time to encourage transfer of institutional knowledge from exiting employees to others.	General Assembly	2009	No cost
9. Allow the use of recruitment bonuses, moving allowances, retention bonuses, and other incentives that have been proven to be successful in other public agencies and in the private sector.	General Assembly	2008	Use of lapsed salary funds
<b>Turnover</b>			
1. Departments and agencies should be given the latitude to use budgeted resources in a more flexible manner as outlined previously.	General Assembly	2008	No cost
2. Become proactive in terms of developing its workforce for the future.	OSP, agencies, universities	2008	\$2 million plus one FTE

<b>Training</b>			
1. Allow employees to achieve and/or maintain required licenses and certifications.	General Assembly	2008	UK
2. Allocate resources to public safety agencies to increase the frequency of physical and related safety training.	General Assembly	2008	\$500,000
3. Fund pilot projects to extend university and other e-learning networks and content to North Carolina's State agency employees.	General Assembly, OSP, agencies, universities	2008-2010	UK
<b>Discipline and Appeals</b>			
1. Amend Section 126A-69 to <u>require</u> mediation as the final step in lieu of hearings.	General Assembly	2008	Estimated savings of \$2 million per year.
2. Expand its supervisory, management and leadership training programs to reduce potential grievances due to inappropriate supervision.	OSP	2008	\$4 million
3. Eliminate demotion as a form of discipline.	General Assembly, State Personnel Commission, OSP	2008	No cost

2. General Assembly should authorize agencies to use all available resources that have been budgeted to address compensation issues within their agency	General Assembly	2008	UK
<b>Total</b>			<b>\$365.5 million</b>

## **APPENDICES**

**LIST OF MATERIALS REVIEWED**

**SCHEDULE OF FOCUS GROUPS CONDUCTED**

**SCHEDULE OF IN-DEPTH HR INTERVIEWS**

**PROPOSED REWRITE OF STATE PERSONNEL ACT**

**SUMMARY OF DIFFERENCES BETWEEN THE CURRENT STATE  
PERSONNEL ACT AND THE PROPOSED ACT**

**SUMMARY OF FOCUS GROUP COMMENTS**

## LIST OF MATERIALS REVIEWED

1. Career Banding Assessment Training, Office of Human Resources
2. Career-Banding Salary Administration, N.C. Office of State Personnel, February, 2007
3. Administrative Support Associate JD, Administrative Support Specialist JD, Administrative Support Supervisor JD
4. Career Banding Fact Sheet, July 2006.
5. Why Career Banding in North Carolina
6. Fundamentals of EEO in a Career-Banded Environment, Office of State Personnel, February, 2007
7. Performance Management, Competency Assessment, and Career Development: Keep It Simple! Lynn Summers, Office of State Personnel, September 7, 2006
8. Performance Management for Career-Banded Positions at NC State University, Heather Boyce, Employee Relations
9. Generational Differences in the Workforce, Career-banding Implementation and HR Innovations, Jo Ann Lee, PhD, Department of Psychology, UNC-Charlotte, November 8, 2006
10. Behave for a Change, Office of State Personnel
11. Recruitment and Selection, Module 1: Posting and Screening, March 2007.
12. Recruitment and Selection, Module 2: Behavior Based Interviewing, March 2007.
13. Employee Relations in the Career Banded System
14. Career Banding Delegation of Authority Guide, 2006.



15. Compensation and Benefits Report, February 2007.
16. Compensation and Benefits Report, May 2006.
17. Compensation and Benefits Report, February 2005.
18. Compensation Manual, Practices and Methods, December 2006.
19. Chapter 126. State Personnel System.
20. Summary of Differences: Current State Personnel Act and the Proposed Act
21. G.S. 126-A Task Force Version Changes to the State Personnel Act 5/10/04 Final Draft
22. State Employees Incentive Bonus Program 2003, Summary of State Review Committee Activities Pertaining to Employee Suggestions Submitted by State Agencies, Prepared by the Office of State Personnel.
23. Review of Classification Hearings of Positions in the Office of Administrative Hearings, Report of Findings, January 30, 2001.
24. Career Banding Guidelines. One-page descriptions of the key steps, and roles in managing pay and other personnel actions in a Career Banded System.
25. Career Banding: Handbook for Managers and Human Resources Professionals, NC Office of State Personnel, February 2007.
26. Office of State Personnel, Position Description Form
27. Posting Options
28. Applicant Selection Matrix
29. Structured Interview Guide
30. Allocation List

31. Spread sheet for Salary Recommendations
32. List of Survey Classes
33. Compensation Program Team, Statewide Turnover Statistics
34. Compensation Program Team, Salary History 1990 to Present, All SPA (PMFT) Employees
35. Compensation Program Team, Legislative Increase July 1971 through July 2006
36. Career Banding Policy FAQs
37. Career Banding Salary Decision Worksheet
38. Salary Grade Reference Inventory, All job Families
39. Project Plan Worksheet
40. NC State Government Supervisor/Manager Competencies, Building Partnerships
41. Dictionary of Functional Competencies for Career Banding
42. Appendix F. Behavior Based Structured Interview Questions, Adapted for Career Banding January 2006.
43. General Assembly of North Carolina, Session 2005, Session Law 2006-66, Senate Bill 1741.
44. Beacon: Beacon Blueprint Review and Realization Kick-off.
45. North Carolina General Assembly Government Performance Audit Committee: Performance Audit of Personnel Systems, Final Report, and December 1992.
46. Commission on State Personnel System, Report to the 1993 General Assembly of North Carolina.

47. State Personnel System Study Commission, Report to the 1991 General Assembly of North Carolina, 1991 Session.
48. Government Performance Project, Grading the States 2005, North Carolina.
49. Broadbanding for Compensation Success, Special Report, Business and Legal Reports, 2006.
50. Designing and Implementing Performance Oriented Payband Systems, James R. Thompson, University of Chicago, IBM Center of the Business of Government, 2007.
51. 2007 Total Compensation Benchmarking Survey, IPMA-HR, 2007.
52. Modernizing Federal Classification: Operational Broad-Banding Systems Alternatives, National Academy of Public Administration, 1996.
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54. Alternative Pay Progression Strategies: Broadbanding Applications, United States Office of Personnel Management, April 1996.
55. How to Measure Human Resources Management, 3rd Edition, Jac Fitz-enz and Barbara Davison, McGraw-Hill, 2002.
56. A Handbook of Human Resource Management Practice, 9th Edition, Michael Armstrong, Kogan Page, 2003.
57. State of North Carolina, State Office of Personnel, Career Banding Report, April 24, 2007, Segal.
58. Federal Human Capital: The Perfect Storm. A survey of Chief Human Capital Officers, July 2007, Grant Thornton and Partnership for Public Service.
59. Broadbanding the Workforce. Draft, Reform Trends among State Human Resource Departments, Cortney Whalen, Florida State University.

60. Reform of the South Carolina Classification and Compensation System. May 1995, South Carolina Budget and Control Board, Office of Human Resources.
61. Career Banding Committee Report to SEANC Board of Governors, May 18, 2007.
62. NC Office of State Personnel, Mission, Vision, and Strategic Goals, 2007.
63. Human Resource Compliance Review Conducted by the Office of State Personnel, University of North Carolina, at Greensboro, Final Reporting, December 2006.
64. Broadbanding, White Paper, WorldatWork, May 2000.
65. Survey Shows Pay Knowledge = Pay Satisfaction, Jeremy Handel, WorkSpan, WorldatWork, July 2002, Vol 45, N. 17.
66. Gauging the Labor Force Effects of Retiring Baby Boomers, Monthly Labor Review, Arlene Dohm, July 2000.
67. DOJ Report, Information Technology Study 2007, “Separations and Turnover”, August 24, 2007.
68. Labor Force Projections to 2014: Retiring Boomers, Monthly Labor Review, Mitra Toossi, November 2005.
69. A Revolution in Public Personnel Administration: The Growth of Web-Based Recruitment and Selection Processes in the Federal Service, Jared J. Llorens and J. Edward Kellough, Public Personnel Management, Volume 36, No 3, Fall 2007.
70. The Aging of the U. S. Workforce: Employer Challenges and Responses, Ernst & Young, January 2006.

## SCHEDULE OF FOCUS GROUPS CONDUCTED

Tuesday, July 17, 2007 GPAC Review of OSP Review Focus Groups

	<b>Sandy Spellman/ Patrick McCoy</b>	<b>Bruce Lawson</b>	<b>Jim Fox</b>
Time			
8:00 – 9:30 am	<b>Location: Coastal Room State Personnel Devt. Center 101 West Peace Street Raleigh, NC 27603</b> Managers SPDC #(919) 733-2474	<b>Location: Mountain Room State Personnel Devt. Center 101 West Peace Street Raleigh, NC 27603</b> Agency Directors SPDC #(919) 733-2474	<b>Location: Large Conference Room 3rd Floor Adm. Bldg. 116 West Jones Street Raleigh, NC 27603</b> Agency Deputy Directors OSP # (919) 807-4800
10:00 – 11:30 am	<b>Location: (DPI) Room # 224 North 301 North Wilmington Street, Raleigh, NC 27601</b> Employees DPI # (807-3385)	<b>Location: Mountain Room State Personnel Devt. Center 101 West Peace Street Raleigh, NC 27603</b> Managers SPDC #(919) 733-2474	Rep Saunders 10:00 Rep Faison 11:00 Sen Jenkins 11:30 Sen Hartsell 12:00 Sen Nesbitt 12::30
Lunch			
1:00 – 2:30 pm		<b>Location: Mountain Room State Personnel Devt. Center 101 West Peace Street Raleigh, NC 27603</b> Agencies HR Directors SPDC #(919) 733-2474	Sen Malone 1:00 Rep Crawford 2:00 Sen. Clodfelter 2:30
1:00	<b>Location: Board Room (UNC-GA) General Adm. Bldg. ;910 Ral. Rd. Chapel Hill, NC 27614</b> Employees UNC-GA # (919) 962- 1000		

**Wednesday, July 18, 2007      GPAC Review of OSP Review Focus Groups**

	<b>Sandy Spellman/ Debbie Burgess</b>	<b>Bruce Lawson</b>	<b>Jim Fox</b>
Time			
8:00 – 9:30 am	Travel	<b>Location: Coastal Room State Personnel Devt. Center 101 West Peace Street Raleigh, NC 27603</b> Employees SPDC #(919) 733-2474	
10:00 – 11:30 am	<b>Location: Willis Auditorium 300 E. 1<sup>st</sup> Street, Greenville, NC 27858</b> Employees Teresa Shook, HR Office Mgr. (252) 328- 9884	<b>Location: Coastal Room State Personnel Devt. Center 101 West Peace Street Raleigh, NC 27603</b> Agency Directors SPDC #(919) 733-2474	Rep Coleman 10:00 Sen. Miichaux 10:30
Lunch	Turcotte and Nelson	Turcotte and Nelson	Turcotte and Nelson
1:00 – 2:30 pm	Travel		
2:00 – 3:30 pm		<b>Patrick McCoy Location: Board Room (UNC-GA) General Adm Bldg. ;910 Ral. Rd. Chapel Hill, NC 27614</b> University HR Directors UNC-GA # (919) 962-1000	Rep Clary 2:00
3:00 - 4:30 pm	<b>Location: Trask Coliseum (Golden Hawk Room) 601 South College Rd. Wilmington, NC 28403</b> Employees UNC-W # (910) 962- 3160		<b>Location: Mountain Room State Personnel Devt. 101 West Peace Street Raleigh, NC 27603</b> Agency Deputy Directors SPDC #(919) 733- 2474
4:15 – 5:45 pm		<b>Location: Video Conference Board Room (UNC-GA) General Adm Bldg. ;910 Ral. Rd. Chapel Hill, NC 27614</b> Universities Chancellor/ Vice Chancellors UNC-GA # (919) 962-1000	<b>Sen Stevens 4:00/4:30</b>

Thursday, July 19, 2007

GPAC Review of OSP Review Focus Groups

	<b>Sandy Spellman/ Debbie Burgess</b>
Time	
7:15 – 11:15 am	Travel
11:15 – 12:45 am	<b>Location: DOC Western Foothills Reg. Employment Office 613 Harper Avenue, SW, Suite B Lenoir, NC 28645-5250</b> Employees
Lunch	
1:45 – 3:15 pm	<b>Location: DOC Western Foothills Reg. Employment Office 613 Harper Avenue, SW, Suite B Lenoir, NC 28645-5250</b> Managers/

## SCHEDULE OF IN-DEPTH HR INTERVIEWS

	<b>August 20, 2007 Monday</b>	<b>August 21, 2007 Tuesday</b>	<b>August 22, 2007 Wednesday</b>	<b>August 23, 2007 Thursday</b>	<b>August 24, 2007, Friday</b>
	<b>S. Spellman, B. Lawson, J. Fox</b>	<b>S. Spellman, B. Lawson, J. Fox</b>	<b>S. Spellman, B. Lawson, J. Fox</b>	<b>S. Spellman, B. Lawson, J. Fox</b>	<b>S. Spellman Only</b>
Time	Location: #3051, Admin. Building	Location: #1157, Admin. Building	Location: #1157, Admin. Building	Location: #1157, Admin. Building	Location: Raleigh
8 - 9:30 am	Dept of Corrections	Sec of State	OSP Career Banding Team	State Treasurer	Beacon Interviews: Gwen Canady and Staff
10 - 11:30 am	Dept of Env. and Natural Resources	Dept of Transportation	UNC- Wilmington	ITS	
Lunch					
1 - 2:30 pm	Dept of Administration	Dept of Justice	NC State Univ	UNC- Charlotte	
3 - 4:30 pm	State Budget Office	OSP Management	Department of Justice	Dept of Health and Human Services	
4:30 - 6 pm		University Forum	SEANC Representatives		



## Proposed Rewrite

### *G.S. 126-A Changes to the State Personnel Act*

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## ARTICLE 1 – NORTH CAROLINA HUMAN RESOURCES SYSTEM ESTABLISHED

### 126A – 1 Purpose of the Chapter: Definitions

- (a) To the end of providing the best possible government services to North Carolinians, the purpose of this Chapter is to establish for the government of the State a uniform, flexible human resources system based on human resources professional standards of a merit system of personnel administration and incorporating the best practices, policies, and innovative models available from government and industry for recruiting and retaining a professional, competent and diverse workforce. It is also the intent of this Chapter that this system of human resource administration shall apply to the local government employees **in programs, activities, or local agencies supported in whole** ~~paid entirely~~ or in part from federal funds, except to the extent that local governing boards are authorized by this chapter to establish local rules, pay plans and human resource systems.
- (b) Definitions:
  - (1) Policy – A guiding principle or course of action regulating or implementing a human resources activity or transaction.
  - (2) Program – A set of policies, procedures and guidelines to accomplish a broad range of related human resources activities or transactions.
  - (3) Procedure – A process or method of accomplishing human resources transactions or activities.
  - (4) Guideline - An explanatory provision for a policy or procedure.
  - (5) Temporary Policy – A course of action adopted, using expedited notice and hearing processes in order to address unexpected, unplanned or otherwise unanticipated activities. A temporary policy shall be in effect only as long as necessary to complete the usual policy-making process.
  - (6) Days - in this **Chapter** shall mean calendar days.
  - (7) Former employee - shall mean a person formerly employed in a position subject to this Chapter who had achieved career status prior to separation.
  - (8) Applicant - shall mean a person who applied for a position subject to this Chapter.
  - (9) Agency - shall mean an agency, university, department, institution, or commission of the State of North Carolina, unless otherwise exempted elsewhere in this Chapter. Where applicable, “agency” may be modified to include local government entities with employees subject to this Chapter by the phrase “state and local agency.”

## ARTICLE 2 – ADMINISTRATION OF THIS CHAPTER

### **126A--2 The State Human Resources Commission**

Effective July 1, 2005, the State Personnel Commission shall be renamed the State Human Resources Commission (hereinafter “the Commission”). The Commission shall consist of seven members appointed as follows:

- (a) A chair, appointed by the Governor, who shall have a background in human resources, in either the public sector or private industry.
- (b) Two current or former State employees subject to the State ~~Personnel~~ Human Resources Act serving in nonexempt positions appointed by the Governor. One employee shall serve in a State government position having supervisory duties, and one employee shall serve in a non-supervisory position. The Governor shall consider nominations submitted by the State Employees Association of North Carolina.
- (c) Two local government employees subject to the State ~~Personnel~~ Human Resources Act, appointed by the governor upon the recommendation of the Association of County Commissioners, one non-supervisory local government employee and one supervisory local government employee.
- (d) Two members at large, one each appointed by the Speaker of the House of Representatives and the President Pro Tempore of the Senate, both of whom shall have a background in human resources, in either the public sector or private industry.

The terms of the initial members who are State employees and of the initial chair shall terminate on July 1, 2006. The terms of all other initial members shall expire on July 1, 2008. The term of each commissioner appointed after July 1, 2006 shall be for four years. The terms of all current members of the Commission shall terminate June 30, 2005. The Commission shall meet at least quarterly, or more often as required by the Director of Human Resources Management. Four members of the Commission shall constitute a quorum. No person may serve more than two consecutive terms as a member or chair of the Commission. Members of the Commission who are State or local government employees subject to this Chapter shall be entitled to administrative leave without loss of pay for all periods of time required to conduct the business of the Commission.

### **126A – 3 Powers of the State Human Resources Commission**

The Commission shall have the authority to exercise the following powers subject, where applicable, to the policy-making process set forth in Article 3 of this Chapter:

- (a) The Commission shall review and approve, reject or approve with changes new or revised existing policies presented by the recommendation of the Director of Human Resources Management, developed by the Commission on its own initiative or presented by any interested person or group to establish new or revise existing human resources policies or programs.
- (b) The Commission shall approve, reject or approve with changes, exceptions to human resources policies as recommended by the Director of the Office of Human Resources Management.

- (c) The Commission shall review and approve, reject or approve with changes all reports required by the General Assembly prior to submittal.
- (d) With the support of the Office of Human Resource Management, the Commission shall conduct studies regarding any human resources issue including conducting any human resources study arising from legislation.
- (e) The Commission shall approve, reject or approve with changes all recommendations from the Director to grant, modify, or revoke authority delegated to agencies, universities, departments, institutions and local governing boards and jurisdictions subject to this Chapter to administer human resources programs and all recommendations from the Director for investigations based on evidence of failure to comply with approved policies.
- (f) The Commission shall approve, reject or approve with changes human resources demonstration projects pursuant to 126A-9(b).
- (g) The Commission shall direct that the Office explore the feasibility of developing new human resources programs and policies based on contemporary human resources practices in the private and public sector.

#### **126A – 4 The State Employee Appeals Board is established.**

There is hereby established the State Employee Appeals Board, effective July 1, 2005. The Board shall consist of seven members appointed as follows:

- (a) A chair, appointed by the Governor.
- (b) Two current or former State employees subject to the State Personnel Act serving in nonexempt positions appointed by the Governor. One employee shall serve in a State government position having supervisory duties, and one employee shall serve in a non-supervisory position. The Governor shall consider nominations submitted by the State Employees Association of North Carolina.
- (c) Two current or former local government employees subject to the State Personnel Act, appointed by the governor upon the recommendation of the Association of County Commissioners, one non-supervisory local government employee and one supervisory local government employee.
- (d) Two members at large, one each appointed by the Speaker of the House of Representatives and the President Pro Tempore of the Senate, both of whom shall be attorneys, two of whom shall have experience practicing employment law, one in representing primarily employees and one in representing primarily employers.

The Board shall meet at least bi-monthly to render the final administrative decision on state employee grievances under this Chapter. The terms of the initial chair and two of the initial members appointed by Governor shall terminate on July 1, 2006. The terms of the other two members appointed by the Governor and the initial member appointed by the Speaker of the House of Representatives and the initial member appointed by the President of the Senate shall terminate on July 1, 2008. The term of each board member appointed after July 1, 2006 shall be for four years. **Four** members of the Board shall constitute a quorum. No person may serve more than two consecutive terms as a member or chair of the State Employee Appeals Board. Members of the Board who are State or local government employees subject to this Chapter shall be entitled to administrative leave without loss of pay for all periods of time required to conduct the business of the Board.

**126A – 5 State Employee Appeals Board; Authority to Make the Final Administrative Decision in State Employee Grievances**

- (a) The State Employee Appeals Board shall be the successor to the State Personnel Commission for the responsibility of reviewing and making final administrative decisions in State employee grievances subject to this Chapter. The Board shall have jurisdiction over any grievance not already reviewed by the State Personnel Commission on or before July 1, 2005.
- (b) The Board shall make the final administrative decision in the appeals of all State employees subject to this Chapter.
- (c) The Board shall have the authority to review all decisions of administrative law judges on contested cases arising under this Chapter rendered pursuant to G.S. 150B-34. The decision of the Board in contested cases shall be a final agency decision pursuant to G.S. 150B-36.
- (d) The Board, in making the final agency decision, is not subject to the provisions of G.S. 150B-36 (b1), (b2) and (b3). The Board, based on its own judgment, shall have the authority to accept, reject or modify the decision of the administrative law judge. The Board may reject any finding of fact of the administrative law judge that is not supported by the record. The Board may reject any conclusion of law of the administrative law judge that is not based on existing case or statutory law, is not supported by relevant policies of the Office of Human Resources Management, or is not supported by the record. The Board shall specifically identify each finding of fact or conclusion of law of the administrative law judge that it is rejecting and shall specify the reason for the rejection. The Board shall have the authority to adopt new or different findings of fact supported by competent evidence in the record. In doing so, the Board shall cite the evidence in the record that supports each new or different finding of fact it adopts. The Board shall have the authority to reject any conclusion of law of an administrative law judge that is in conflict with existing policy, or statutory or case law. In adopting new or different conclusions of law, the Board shall cite the relevant law, policy or facts that support new or different conclusions of law. To the extent practicable based on statutory and case law, and consistent with the specific facts of each appeal, the Board shall act consistently with its own prior decisions in employee appeals.
- (f) In appeals involving local government employees covered by this Chapter
  - (1) Pursuant to G.S. 126A-19(a)(2) the decision of the State Employees Appeals Board shall be advisory to the local appointing authority except that in appeals in which discrimination prohibited by Article 6 of this Chapter is found, the decision of the Board shall be final.
  - (2) Within 90 days of receipt of an advisory opinion of the State Employees Appeals Board, the local appointing authority shall issue a final written decision accepting, rejecting or modifying the decision of the Board. If the advisory decision is either rejected or modified, the local appointing authority must state specific reasons why it did not adopt the advisory decision. A copy of the final decision shall be served on each party personally or by certified mail, and on each party's attorney of record.
  - (3) The final decision of the local appointing authority is subject to judicial review pursuant to Article 4 of Chapter 150B of the General Statutes.

- (g) The Board shall have the authority to issue binding corrective orders or such other appropriate action concerning employment, promotion, demotion, transfer, discharge, reinstatement, and any other issue defined as a contested case issue by this Chapter except as described in subsection (f), above.
- (h) In those contested cases in which the Board finds discrimination, retaliation, or harassment prohibited by G.S. 126A-69(a)(11) and G.S. 126A-69(a)(12), or orders reinstatement or back pay, the Board shall have the authority to award reasonable attorney fees, reasonable witness fees and costs, to the grievant.

## **126A – 6      *Judicial Review of Decisions by the Board***

Either party to a final decision of the State Employee Appeals Board may petition the Superior Court for judicial review.

### **126A – 7      The Office of Human Resources Management established; appointment, compensation and tenure of Director**

The Office of State Personnel is hereby renamed the Office of Human Resources Management (hereinafter “the Office”). It shall be placed for organizational purposes only within the Office of the Governor. The Office shall exercise independently all of its statutory powers and shall be under the supervision of the State Human Resources Director (hereinafter “the Director”). The salary of the Director shall be fixed by the General Assembly in the Current Operations Appropriations Act. The Director shall be appointed by, and serve at the pleasure of, the Governor.

### **126A – 8      Powers and Duties of the Office of Human Resources Management**

The Office shall be responsible for the following activities and such other activities as specified in this Chapter. The activities listed in all subsections of this section with the exception of subsections (c) and (k) shall be implemented only upon the approval of the Commission:

- (a) Developing, implementing and administering programs and policies, consistent with the provisions of this Chapter and upon approval of the Commission, for the effective and efficient operation of the state government workforce.
- (b) Developing and implementing standards and criteria for the delegation and monitoring of human resources programs administered by the various State agencies, and local governing boards and jurisdictions subject to this Chapter.
- (c) Monitoring and certifying the extent to which State and local agencies are in compliance with federal standards for a merit system of personnel administration, where required by applicable provisions of the federal code.
- (d) Providing training and technical assistance in human resources management and related programs to State agencies and local governing boards and jurisdictions subject to this Chapter. This shall include providing train-the-trainer programs where sufficient departmental or university staff exists with the necessary knowledge and competencies to provide the training within their respective agencies or universities.
- (e) Approving delegation of authority agreements with all State agencies and local governing boards and jurisdictions subject to this Chapter for those

human resources programs which the respective agencies or universities are found to have sufficient resources and expertise.

- (f) Establishing and applying monitoring and auditing standards, criteria and procedures to ensure that all delegated program and policy authority exercised by departments, universities, agencies, institutions and local governing boards and jurisdictions subject to this Chapter is in compliance with applicable State and federal laws, and State policies and procedures. ~~and is exercised in a manner consistent with the best practices in human resources administration.~~ The Office may advise agencies about ways to operate consistent with best practices. This includes developing appropriate actions up to and including the revocation of authority delegated to State agencies and local governing boards and jurisdictions subject to this Chapter for noncompliance with standards and criteria developed and published by the Office.
- (g) Maintaining an information database on employee and position information required for the efficient management and administration of the State's workforce and to satisfy reporting requirements.
- (h) Developing and implementing criteria and standards to measure the effectiveness and efficiency of human resources programs which include employees subject to this Chapter, including the ability of such programs to provide a diverse workforce capable of meeting goals and objectives.
- (i) Developing and implementing recruitment and retention programs designed to promote and encourage a diverse and well-qualified work force for employees subject to this Chapter.
- (j) Developing and implementing programs on productivity, cost savings and quality of work incentives, equal opportunity, compensation, benefits, and other programs and procedures as may be necessary to promote efficiency of administration and provide for a fair and contemporary system of human resources administration for employees subject to this Chapter.
- (k) Working jointly with other State agencies to coordinate communications to State employees and retirees regarding benefit programs as may be available to them through the Office and other state agencies, universities, departments and institutions.
- (l) The Office shall provide administrative support for the Commission and the Board.

**126A – 9 The Responsibility and Authority of the Office to develop, implement and administer policies and procedures necessary to the administration of this Chapter.**

- (a) Pursuant to policy-making provisions contained in Article 3 of this Chapter, and subject to the approval of the Commission, the Office shall have the authority to develop, implement and administer policies and procedures on the following matters necessary to the administration of the State's system of human resources management:
  - (1) The recruitment and selection of persons for employment by the State or political subdivision subject to this Chapter;
  - (2) The appointment, promotion, demotion, transfer and separation of employees; and the discipline of employees, including dismissal;
  - (3) Programs of equal employment opportunity;
  - (4) The classification and compensation of all employees subject to this Chapter;

- (5) Hours of work, paid holidays, leave and other matters pertaining to conditions of employment;
  - (6) Programs of accountability to assure the human resources programs are efficient, effective and are operated in compliance with policies and regulations;
  - (7) Working jointly with other State agencies to coordinate all benefit programs and plan years for the purpose of achieving efficiency in the delivery of benefits, whether administered primarily in the Office or by other state agencies, universities, departments, and institutions, including but not limited to the coordination of communications about benefit programs in the State Health Plan and the State Retirement System to employees and retirees; and,
  - (8) Other programs, policies and procedures necessary for, or in support of, a contemporary, fair and equitable system of human resources management.
- (b) The Office, subject to the approval of the Commission pursuant to Article 3 of this Chapter, shall develop, implement and administer policies and procedures concerning the conduct of demonstration projects. The purposes of demonstration projects are to: (1) determine if the potential human resources program would be of benefit to State Government; (2) prevent the costly implementation of untested human resources programs on a statewide basis; (3) measure the benefits of potential human resources programs versus program costs; (4) test and modify program guidelines prior to the adoption of policies and procedures governing a statewide program.
  - (c) Demonstration projects shall have the following characteristics:
    - (1) Specific goals and objectives; (2) an analysis, at the end of the project, of the estimated costs/benefits of the project; (3) measurement criteria so that achievement of the goals and objectives can be accurately measured; (4) specific beginning and ending dates.
  - (d) The Office shall, subject to the approval of the Commission pursuant to Article 3 of this Chapter, operate demonstration projects initiated by the Office, as well as approve projects proposed and initiated by the various State agencies, either singly or jointly. Demonstration projects may be proposed in any human resources area. With concurrence from the Office of State Budget & Management, departments, universities and agencies shall have the flexibility to use any allowable and available funds to operate demonstration projects. Upon the completion of a demonstration project, the Office or the participating State agencies shall submit a report to the Commission that includes an analysis of both the costs and the benefits of the program, a program evaluation including all measures identified in the program design proposal, and recommendations based on the results of the demonstration project. Upon termination of a demonstration project, employee salaries may be adjusted to reflect any legislative increases, and any other adverse employment impact caused by employee participation in the demonstration project shall be rectified. The Office, subject to the approval of the Commission pursuant to Article 3 of this Chapter, may propose, implement and administer statewide policies and procedures based on a successful demonstration project.



#### **126A –10 Reports**

- (a) Beginning July 1, 2005, and annually thereafter, the head of each State agency, university, department or institution employing persons subject to this Chapter shall report to the Office on the costs associated with the settlement of administrative grievances and lawsuits filed by current or former State employees and applicants for state employment and arising in whole or in part under this Chapter. The costs shall include the costs of settlements, attorney fees, reasonable witness fees and costs, damages or awards incurred by the respective State agency, university, department or institution.
- (b) Beginning May 1, 2006, and annually thereafter, the Director shall report to the Joint Legislative Commission on Governmental Operations on the costs associated with the settlement of administrative grievances and lawsuits as compiled in compliance with subsection (a).
- (c) Beginning May 1, 2006, and annually thereafter, the Director shall report to the Joint Legislative Commission on Governmental Operations on outcomes with respect to State employee hirings, promotions, disciplinary actions and compensation based on demographics of the state workforce by occupational category.
- (d) Pursuant to G.S. 126A-28, G.S. 126A-29, and G.S. 126A-30, the Office shall report to the Chair of the Appropriations Committees of the House and Senate on compensation and benefit trends and recommendations for compensation and benefit changes for State employees. This report shall be submitted no later than three weeks after the convening of the General Assembly in odd-numbered years, and by May 1<sup>st</sup> in even-numbered years.
- (e) The Office shall be responsible for the preparation and submission of the Workplace Requirements report as required by Article 63 of Chapter 143.
- (f) The Office shall annually submit a report to the General Assembly concerning the status of Equal Employment Opportunity plans and programs of all State departments, universities, agencies and institutions. The report shall include an analysis of compensation, workforce representation, new hires, and promotions by demographics and occupational categories, and achieved employment objectives.
- (g) The Office shall annually submit a report to the General Assembly summarizing the training activities conducted within the Equal Employment Opportunity Training Institute program.

#### **126A-11 Publication and Communication**

- (a) The Office shall be responsible for notifying State agencies, and local governments of human resources policies, procedures and guidelines and modifications as appropriate. This notice shall include, but not be limited to publication in electronic or paper format.
- (b) The Office shall publish a handbook for State employees that incorporates significant human resources policies and procedures.
- (c) The Office shall publish at least every six (6) months, or more often as necessary, notification of all policy adoptions, amendments or repeals. This publication shall at least be sent to the human resources office of each State agency and local government with employees subject to this Chapter. Each State agency, department, university, institution and local government shall be responsible for communicating this information to its employees in an appropriate and timely fashion. Each State agency, department, university, institution and local government shall notify the Office by January 1, each

year the manner in which this information is communicated to its employees. **126A – 12 – 16 are reserved for future codification.**

### ARTICLE 3 -- POLICY-MAKING PROCESS

#### 126A – 17 Public Process for Policy Adoption, Amendment and Repeal

It is the policy of the State of North Carolina that policies and procedures implementing and administering the State's human resources programs and activities shall be adopted, amended or repealed in a process that provides opportunity for interested persons and groups to receive advance notice of the policy and procedure-making process, participate in providing input to the process and otherwise be part of the process. The policy and procedure-making process for the Human Resources System shall be as follows:

- (a) The Office shall announce proposed new and revised policies or rules to all State agencies and local governing boards and jurisdictions subject to this Chapter and other affected parties in an established written format. The Office in conjunction with all State **and local** agencies, shall announce all proposed changes to affected employees. The Office shall provide a period of sixty (60) calendar days for submitting written comments.
- (b) Subsequent to the conclusion of the comment period, the Office shall establish a date for a public hearing. The public hearing shall not occur sooner than ten (10) calendar days following the end of the comment period. The Office shall announce the public hearing consistent with (a) above. Any person, party or organization interested in the proposed policy, amendment or repeal may request an opportunity to speak at the public hearing. Any person, party or organization interested in the proposed policy, amendment or repeal may provide written comments in lieu of appearing at the public hearing upon request.
- (c) The Office shall conduct the public hearing as scheduled. At the hearing, the comments, either from a presentation or submitted in writing, shall be heard and recorded. The Director or a designee shall provide a report of the public hearing to the Commission.
- (d) The Commission shall review all comments received, in whatever form, make any revisions deemed necessary to the proposal, and consider approval of the proposal. If the proposal is approved, the Director shall announce an effective date of the policy that is no sooner than thirty (30) days after the final policy is announced. The Director or designee shall make available a copy of the policy action taken as a result of this process.
- (e) The human resources policies, procedures and programs of the State in effect on July 1, 2005 shall remain in effect until repealed or modified in accordance with the provisions of this Chapter.

## ARTICLE 4 – COVERAGE

### ***126A –19 Coverage of employees pursuant to this Act; status of employees***

- (a) The provisions of this chapter shall apply to:
  - (1) All employees of any State agency, university, department, or institution of the State of North Carolina unless herein specifically exempted from this Chapter or one or more provisions of this Chapter.
  - (2) All employees of the following local **entities**:
    - i. Area mental health **programs** or Local Management Entities.
    - ii. Local social services departments.
    - iii. County health departments and district health departments.
    - iv. Local emergency management agencies that receive federal grant-in aid funds.An employee of a consolidated county human services agency shall not be considered an employee of an entity listed in this subsection.
  - (3) County employees not included in subdivision (2) of this subsection as the several boards of county commissioners may from time to time determine.
- (b) For the purposes of this Chapter, “career employee” shall mean an employee who is in a permanent position subject to this Chapter, regardless of funding source; and, who has been continuously employed by the agency or a political subdivision of the State in a permanent position subject to this Chapter for a period of twelve consecutive months or who has completed a recognized trainee progression, whichever is longer, unless the employee is exempted from this Chapter.
- (c) As used in this Article, “Exempt position” means positions that are not listed in subsection (e)(4)-(e)(21) and are :
  - (1) Senior administrators and are delegated with significant managerial or programmatic responsibility that is essential to the successful operation of a State department, agency, or division and the authority to develop departmental policy and impose the final decision as to a settled course of action to be followed within an agency, department, or institution; or
  - (2) Confidential assistants, confidential secretaries, and other positions that require loyalty to the agency head in order to implement the policies of their office.
- (d) The provisions of this Chapter shall not apply to any employee ~~of the State~~ who is not a career ~~State~~ employee as defined by this Chapter, except as to the policies and procedures adopted by the Office with the approval of the Commission that apply specifically to non-career State employees, and except as to the provisions of Article 4, Article 5, Article 6, Article 7, Article 8 and Article 10, which shall all apply to non-career State employees.
- (e) Except as to the provisions of Article 4, Article 6, Article 7, and Article 10 of this Chapter, the provisions of this Chapter shall not apply to:
  - (1) Officials or employees whose salaries are fixed by the General Assembly, or by the Governor, or by the Governor and the Council of State, or by the Governor subject to the approval of the Council of State.

- (2) Employees of the Office of the Governor that the Governor exempts at any time from the application of the provisions of this Chapter by means of a letter to the Director of the Office of Human Resources Management designating these employees. The Director shall notify such persons in writing of their exemption from this Chapter by the Governor.
- (3) Employees of the Office of the Lieutenant Governor that the Lieutenant Governor exempts at any time from the application of the provisions of this Chapter by means of a letter to the Director designating these employees. The Director shall notify such persons in writing of their exemption from this Chapter by the Lieutenant Governor.
- (4) Constitutional officers of the State.
- (5) Officers and employees of the Judicial Department.
- (6) Officers and employees of the General Assembly.
- (7) Members of boards, committees, commissions, councils, advisory councils, compensated on a per diem basis and those exempted by statute.
- (8) Instructional and research staff, physicians, and dentists of The University of North Carolina.
- (9) Employees whose salaries are fixed under the authority vested in the Board of Governors of The University of North Carolina by the provisions of G.S. 116-11(4), 116-11(5) and 116-14.
- (10) North Carolina School of Science and Mathematics' employees whose salaries are fixed in accordance with the provisions of G.S. 116-235(c)(1) and G.S. 116-235(c)(2).
- (11) Employees of the North Carolina Hazardous Waste Management Commission whose salaries are fixed pursuant to G.S. 130B-6(g)(1) and G.S. 130B-6(g)(2).
- (12) Employees of the North Carolina State Ports Authority.
- (13) Employees of the North Carolina Global TransPark Authority
- (14) The executive director and one associate director of the North Carolina Center for Nursing established under Article 9F of Chapter 90 of the General Statutes.
- (15) The executive director of the independent staff of the Information Resources Management Commission established under G.S. 143B-472.41A.
- (16) Employees of the Tobacco Trust Fund Commission established in Article 75 of Chapter 143 of the General Statutes.
- (17) Employees of the Health and Wellness Trust Fund Commission established in Article 21 of Chapter 130A of the General Statutes.
- (18) Employees of the North Carolina Rural Redevelopment Authority created in Part 2D of Article 10 of Chapter 143B of the General Statutes.
- (19) Employees of the Clean Water Management Trust Fund.
- (20) Employees of the North Carolina Turnpike Authority.
- (21) Employees of the Cooperative Extension Service,
- (f) Except for Article 4 and Article 10 of this Chapter, the provisions of this Chapter shall not apply to public school superintendents, principals, teachers and other public school employees.
- (g) Except for Article 4 and Article 10 of this Chapter, the provisions of this Chapter shall not apply to employees of local Community Colleges.

- (h) Except for Article 4 and Article 10 of this Chapter, the provisions of this chapter shall not apply to employees of community colleges whose salaries are fixed in accordance with the provisions of G.S. 115D-5 and G.S. 115D-20, and employees of the Community Colleges System Office whose salaries are fixed by the State Board of Community Colleges in accordance with the provisions of G.S. 115D-3.
- (i) Except as to the policies established by the Office pursuant to G.S. 126A-25, 126A-69(a)(11) and G.S. 126A-69(a)(12), Articles 4, 6, 7 and 10 of this Chapter, the provisions of this Chapter shall not apply to: teaching and related educational classes of employees of the Department of Correction, the Department of Health and Human Services, and any other State department, agency, or institution whose salaries shall be set in the same manner as set for corresponding public school employees in accordance with Chapter 115C of the General Statutes.
- (j) Except for Articles 4, 6, 7, and 10 of this Chapter, the provisions of this article shall not apply to any employee of the UNC Health Care System; employees of the Medical Faculty Practice Plan, a division of the School of Medicine of ECU.
- (k) Except as to the provisions of Articles 4, 5, 6, 7, and 10 of this Chapter, the provisions of this Chapter shall not apply to exempt positions in Cabinet Departments. The Governor may designate as exempt positions a number up to 1% of the total number of full-time positions, or thirty positions, whichever is greater within each Cabinet department, with a maximum of 750 positions designated as exempt. This list shall be designated in a letter to the Director by June 1 of the year in which the oath of office is administered to the Governor.
- (l) Except as to the provisions of Articles 4, 5, 6, 7, and 10 of this Chapter, the provisions of this Chapter shall not apply to exempt positions in the Council of State Departments and Offices – The Secretary of State, the Auditor, the Treasurer, the Attorney General, the Commissioner of Agriculture, the Commissioner of Insurance and the Labor Commissioner may designate exempt positions. The State Board of Education may designate exempt positions in the Department of Public Instruction. The number of exempt positions in each department headed by an elected department head listed above in this sub-subdivision shall be limited to thirty exempt positions or 1%, whichever is greater. This list shall be designated in a letter to the Director by June 1 of the year in which the oath of office is administered to the Governor.
- (m) In the event of a vacancy in the Office of the Governor, the person who succeeds to the unexpired term shall have 120 days to designate positions as exempt.
- (n) ~~Creation, Transfer or Reorganization~~— The Governor, elected department head, or State Board of Education may designate additional positions as exempt or may designate exempt positions as non-exempt at any time as long as the total number of exempt positions in the agency, department or institution does not exceed its maximum number of exempt positions. Any changes in exempt status shall be described in a letter to the Director within thirty (30) days of the changes.
- (o) An employee exempted **pursuant to subsection 126A-19(c)** may be transferred, separated or dismissed from his or her position for non-

disciplinary reasons by the department, agency or institution head authorized to designate the exempt position except:

- (1) When an employee who has completed less than ten (10) years of cumulative service, but at least 12 continuous months of service in one or more positions subject to this Chapter immediately prior to placement in an exempt position, is removed from an exempt position, the employee shall have the same priority to reemployment as established by policies of the Office for employees separated in a reduction-in-force.
  - (2) When an employee who has completed ten (10) years or more cumulative service, including the immediately preceding 12 months of service in one or more positions subject to this Chapter immediately prior to placement in an exempt position, is removed from an exempt position, the employee shall be reassigned to a subject position within the same agency, department, or institution and within a fifty (50) mile radius of the exempt position, at the same salary, including all across-the-board increases, as his most recent position subject to this Act.
- (p) No career state employee shall be placed in an exempt position without ten (10) calendar day's prior written notification that such position is designated exempt, unless the position is posted and advertised as exempt and the employee applies for the position. Positions designated as exempt must be so identified in any vacancy listing or advertisement.

**126A –20 – 24 are reserved for future codification.**

## ARTICLE 5 – COMPENSATION

### **126A-25 Compensation Philosophy of the State of North Carolina**

State employees are essential in planning and delivering vital services to North Carolina's citizens. Recognizing the value and importance of its human resources by striving to ensure competitive compensation for all State employees within their defined labor markets is a key strategy to ensure continuous high quality service delivery. It is the policy of the State to compensate its employees competitively in order to reinforce high standards and to enable the State to recruit, retain and develop a highly qualified, motivated and diverse workforce; promote proven successful work behaviors; emphasize competencies and demonstrated proficiency on the job; and clearly link job competencies to State agency, missions, visions and goals. North Carolina's compensation philosophy is to provide for all State employees a fair and competitive total compensation package of direct pay and benefits that is market competitive.

### **126A-26 Compensation of State Employees**

Pursuant to the policy-making provisions in Article 3 of this chapter, the Commission shall adopt a system of contemporary employee compensation based on competitive market rates, recognition of performance, recognition of achievement of skills, abilities and knowledge relevant to improved job performance. The system shall incorporate and reflect regular reviews of the state and national economy, labor market information and increases in the cost-of-living. This system shall include incentive bonuses based on individual or group contribution, across-the-board increases based on average market movement, and on increases in the cost-of-living for all employees performing at least at a satisfactory level, performance-based increases, and additional funds to increase salaries in occupational areas where salaries are significantly deficient in relation to the labor market. This system of compensation shall be developed through the policy-making process set out elsewhere in this Chapter.

### **126A-27 Job Classification of Employees Subject to this Chapter**

Pursuant to the policy-making provisions in Article 3 of this chapter, the Commission shall adopt a system of contemporary job classification for all positions subject to this chapter that supports the compensation philosophy of the State. The system shall include at least salary range minimums and maximums and average market rates for classes of work appropriate to the state.

### **126A-28 Across-the-Board Legislative Increase**

The Office, based on an analysis of the relevant labor market and increases in the cost-of-living, shall recommend annually an across-the-board increase for State employees who are performing at least at the satisfactory level. This recommendation shall be presented to the Commission and shall be presented by the Director to the Appropriations Committees of the House and Senate no later than three weeks after the convening of the General Assembly in odd-numbered years, and by May 1<sup>st</sup> of even-numbered years.



#### **126A-29 Performance-based Legislative Increase**

The Office, based on an analysis of the relevant labor market, shall annually recommend a performance-based increase for State employees. Performance-based increases shall be granted to employees considering performance level. The average labor market rate shall not be used as a factor in determining the amount of performance increases until the Commission determines that overall employee salaries have reached competitive levels. The Director of the Office of Budget and Management shall transfer to the agency an average performance-based increase to distribute according to a plan developed by the agency and approved by the Office. The average performance-based increase recommendation shall be presented to the Commission and shall be reported to the Appropriations Committees of the House and Senate no later than three weeks after the convening of the General Assembly in odd-numbered years, and by May 1<sup>st</sup> of even-numbered years. The Office, with the approval of the Commission, pursuant to Article 3, shall develop a contemporary system of performance management, including regular, written evaluations and a process for resolving disputes about performance ratings.

#### **126A-30 Labor Market Adjustment Fund**

The Office, based on analysis of the relevant labor market, shall annually recommend an amount of money to place in a Labor Market Adjustment Fund. The fund shall be used to increase salaries in occupational areas that are significantly behind the labor market. The fund shall be administered by the Office of State Budget and Management and funds shall be transferred to all agencies based on a plan approved by the Commission based on recommendations made by the Director. At the recommendation of the Office, appropriations to the Labor Market Adjustment Fund shall be presented to the Commission and shall be presented to the Appropriations Committees of the House and Senate no later than three weeks after the convening of the General Assembly in odd-numbered years, and by May 1<sup>st</sup> of even-numbered years.

#### **126A-31 Additional Compensation Programs**

Pursuant to the policy-making provisions in Article 3 of this chapter, the Commission, in response to critical labor factors, may establish compensation programs to enhance the recruitment and retention of valuable employees. The Office, with the approval of the Commission, may establish other compensation programs needed in order to remain competitive. Compensation programs that include bonuses not funded otherwise under this or any other section shall be funded from State agency lapsed salary funds, other personal services funds, or other funds as appropriate for universities and other agencies receiving funds from non-State sources.

#### **126A-32 Programs of Leave for State Employees**

Pursuant to the policy-making provisions in Article 3 of this chapter, the Office, with the approval of the Commission, shall establish policies and guidelines for programs to administer leave that are competitive with the State's labor market, that consider the differing needs of State employees, and that are flexible to accommodate the differing business needs of the State agencies. The total amount of employee leave shall not be reduced, without an employee's consent, to a level less than the rating scale of leave earned by employees on July 1, 2004.

### **126A-33 State Employee Incentive Bonus Program**

- (a) It is the State's objective to promote agencies' employee suggestion programs, through the State Employee Incentive Bonus Program (SEIBP) whereby employees and groups of employees can be recognized and rewarded for adopted ideas, suggestions, innovations and the achievement of individual or group goals that improve their agencies and state governmental operations. The Office shall administer the State's program and is authorized, with the approval of the Commission, to adopt and implement policies and administer a State Employee Incentive Bonus Program.
- (b) All agencies, departments, institutions and universities are required to have a State Employee Incentive Bonus Program that is consistent with the policy approved by the Commission.
- (c) A State Review Committee shall consist of eleven members as follows:
  - (1) The State SEIBP Coordinator
  - (2) A representative of the Office of State Budget and Management
  - (3) A representative of the Department of Administration
  - (4) A representative of the Department of Information and Technology Services
  - (5) A representative of the Office of Human Resources Management
  - (6) A representative of The University of North Carolina appointed by the President
  - (7) A representative of the Department of Justice
  - (8) A representative of the Department of Labor
  - (9) One current State employee appointed by the Speaker of the House of Representatives
  - (10) One current State employee appointed by the President Pro Tempore of the Senate.
  - (11) One current State employee appointed by the governor upon the recommendation of the State Employees Association of North Carolina
- (d) The State Review Committee, by a majority vote, shall have the final authority to approve any bonuses consistent with State Employee Incentive Bonus Program policy. First year suggestion savings and other gainsharing bonuses derived from General Fund appropriations shall be distributed as follows:
  - (1) 20% to the suggester and/or suggester group, with an individual limit of \$20,000, and an aggregate team limit of \$100,000.
  - (2) 20% to the General Fund
  - (3) 40% to the implementing agency, department, university, or institution
  - (4) 10% to the State Employees Incentive Bonus Program for administrative and operating expenses
  - (5) 10% to the Office to be used for employee training
- (e) The State Review Committee shall review and approve where appropriate a distribution formula proposed by an agency that does not follow paragraph (d) in situations where the agency has an approved suggestion in a program that is not funded through the General Fund.

#### **126A-34 Flexible Benefits Program**

- (a) Consistent with G.S. 143-34.1, the Office is authorized to provide eligible officers and employees of State departments, institutions, and agencies not covered by the provisions of G.S. 116-17.2 a program of dependent care assistance, as available under Section 129 and related sections of the Internal Revenue Code of 1986, as amended. The Office shall coordinate the annual agreements entered into between the State departments, institutions, and agencies and employees who elect to participate in the program to provide for a reduction in salary. With the approval of the Director of the Budget, savings in the employer's share of contributions under the Federal Insurance Contributions Act on account of the reduction in salary may be used to pay some or all of the administrative expenses of the program. Should the Office decide to contract with a third party to administer the terms and conditions of a program of dependent care assistance, it may select a contractor only upon a thorough and completely competitive procurement process.
- (b) Consistent with G.S. 143-34.1, and notwithstanding any other provisions of law relating to the salaries of officers and employees of departments, institutions, and agencies of State government, the Office is authorized to provide a plan of flexible compensation to eligible officers and employees of State departments, institutions, and agencies not covered by the provisions of G.S. 116-17.2 for benefits available under Section 125 and related sections of the Internal Revenue Code of 1986 as amended. In providing a plan of flexible compensation, the Office shall coordinate the annual agreements entered into between State departments, institutions, agencies and employees. . With the approval of the Director of the Budget, savings in the employer's share of contributions under the Federal Insurance Contributions Act on account of the reduction in salary may be used to pay some or all of the administrative expenses of the program. Should the Office decide to contract with a third party to administer the terms and conditions of a plan of flexible compensation as provided by this section, it may select such a contractor only upon a thorough and completely advertised competitive procurement process.

#### **126A-35-38 Reserved for future codification**

## ARTICLE 6 – EQUAL EMPLOYMENT OPPORTUNITY

### 126A- 39 Equal Employment Opportunity

- (a) All State agencies and all local political subdivisions of North Carolina shall give equal opportunity for employment and compensation, without regard to race, religion, color, creed, national origin, sex, age, or disabling condition as defined in G.S. 168A-3 to all persons otherwise qualified, except where specific age, sex or ability requirements constitute bona fide occupational qualifications necessary to proper and efficient administration. This section with respect to equal opportunity as to age shall be limited to individuals who are at least 40 years of age.
- (b) The Office shall be responsible for providing technical assistance and training to agencies and universities; program oversight, monitoring, and evaluation; and required reporting.

### 126A-40 Retaliation by State or Local Agencies

No State or local agency shall retaliate against an employee, applicant or former employee for protesting alleged violations of G.S. 126A - 39.

### 126A-41 Equal opportunity plans; reports

- (a) Each member of the Council of State under G.S.143A-11, each of the principal departments enumerated in G.S. 143B-6, the constituent schools and universities in the University of North Carolina system, the UNC Health Care System, the Medical Family Practice Plan within the School of Medicine at ECU, the Judicial branch and the Legislative branch shall develop and submit an Equal Employment Opportunity plan, not inconsistent with State or federal law, which shall include goals and programs that provide positive measures to assure equitable and fair representation of North Carolina's citizens. The plans developed by the judicial branch and by the Legislative Services Office on behalf of the legislative branch shall be submitted annually to the General Assembly. All other plans shall be submitted by March 1, of each year to the Director for review and approval.
- (b) The Commission shall annually approve plans and submit a report to the General Assembly concerning the status of Equal Employment Opportunity and plans and programs for all state departments, agencies and universities, which are required by this chapter to develop plans. If any plan has been disapproved, the report shall contain reasons for disapproval. The status report submitted to the General Assembly shall contain data on the total number of persons employed in occupational category, the race, sex and or other demographics relative to the persons hired, promoted, and compensated during the reporting period, analysis of the data, and an indication as to which goals were achieved.

### 126A-42 Equal Employment Opportunity Institute Training

All agencies shall enroll all new managers and supervisors in the Equal Employment Opportunity Institute within one year of appointment.

**126A-43 through 45 are reserved for future codification**

**ARTICLE 7 – PRIVACY OF HUMAN RESOURCES RECORDS FOR  
EMPLOYEES SUBJECT TO THIS CHAPTER**

**126A-46 Human Resources files not subject to inspection under G.S. 132-6**

Human resources files of State employees, former State employees, or applicants for State employment shall not be subject to inspection, examination or copying as authorized by G.S. 132-6. For the purposes of this Article, a human resources file consists of any information gathered by the State agency or constituent component thereof which employs an individual, previously employed an individual, or considered an individual's application for employment, or by the Office, and which information relates to the individual's application, selection or non-selection, promotions, demotions, transfers, leave accrual or use, salary, compensation and benefits, discipline in any sanctioned form, employee investigations, medical records, performance evaluation, and termination of employment, wherever located and in whatever physical or electronic form.

**126A-47 Certain human resources information to be open for inspection and copying**

- (a) Each State agency, commission, and bureau of the State shall maintain records open to inspection and copying of its employees and former employees, containing the following information with respect to each employee and former employee:
  - (1) Name,
  - (2) Age,
  - (3) Date of original employment to State service,
  - (4) Current position title and other information identifying the position such as position number and working title,
  - (5) Amount of current salary and non-salary compensation,
  - (6) Date and amount of most recent increase or decrease in salary,
  - (7) Date and type of most recent personnel action involving promotion, demotion, transfer, position reallocation, separation, and
  - (8) Except as prohibited by G.S. 15C-1, et seq., or where necessary to protect the safety or security of one or more state employees, the office or station to which the employee is currently assigned, including the street address and mailing address, if different, of such station.
- (b) Non-confidential information collected on applicants for State employment shall not be open to inspection or copying until after the position for which the applicant has applied is filled. ~~the employee is hired.~~
- (c) Every person having custody of such records containing information set out in subsection (a) above shall permit them to be inspected, examined and copies made by any person at a reasonable fee for any reason during that office's regular business hours. Any person who is denied access to any such record for the purpose of examining or copying the same shall have a right to compel compliance with the provisions of this Article by application to a court of competent jurisdiction for appropriate relief.

**126A-48 Confidential human resources information; access to such information**

- (a) All material contained in a human resources file, in whatever physical or electronic form, except for information set out in G.S. 126A-47 (a) (1)-(8), is

confidential and shall not be open to inspection and copying, except as set out in this Section.

- (b) The following persons shall have authority to examine and copy any material in a human resources file:
  - (1) The employee, former employee or applicant for employment, or the properly authorized agent of same, who may examine his human resources file in its entirety except for any written reference solicited prior to employment, promotion or transfer;
  - (2) The supervisor of the employee or any person in the line of managerial authority above the employee in the department, university, agency or institution;
  - (3) Members of the General Assembly who may inspect and examine human resources records pursuant to the authority of G.S. 120-19;
  - (4) A party by authority of a proper court order may inspect that portion of a human resources file specified in the order;
  - (5) An official or employee of an agency of the federal government, State government or any political subdivision thereof in the pursuance of an official governmental function; provided, however, that such information shall not be divulged for purposes of assisting in a criminal prosecution, nor for purposes of assisting in any way in a tax investigation, prosecution or collection effort.
- (c) Notwithstanding any other provision of this Chapter, a head of a department, university, agency or institution of the State of North Carolina or a local government entity with employees subject to this Chapter may inform any person or corporation of any confidential human resources information if, in the discretion of the department, university, agency or institution head, such disclosure is necessary to protect the integrity of the State agency from false, inaccurate or misleading public statements by any person, or to maintain the level or quality of services provided by the State agency. When such disclosure is made, the department, agency, university or institution head or his designee shall prepare a memorandum setting forth the circumstances the department, agency, university or institution head deems to require such disclosure and the specific information to be disclosed. The memorandum shall be placed in the human resources file or files of the employee or employees whose information is being released. This memorandum shall be a public record.

#### **126A-49 Remedy of employee objecting to material in file**

- (a) Any state agency employee, former employee or applicant for employment who objects to material in his personnel file on the basis that said material is inaccurate or misleading may choose either to place in his file a statement relating to and correcting the material considered to be inaccurate or misleading, or to file a internal grievance with his agency's grievance procedure seeking removal of the allegedly inaccurate or misleading material. If the employee chooses to place correcting material in the personnel file, the agency is responsible for seeing that this addendum is physically or electronically attached to the material considered to be inaccurate or misleading and is provided to anyone who seeks to examine said material.
- (b) Sub-section (a) of this section shall not apply to any document used in the disciplinary process, nor shall it apply to any document used in the

performance management process, including but not limited to, any document rating an employee's performance or setting out a plan or program for performance improvement, or any document prepared as a result of an employee investigation.

**126A – 50   Penalty for permitting access to confidential file material by unauthorized person; penalty for examining, copying confidential material without authority**

Any person who shall knowingly and willfully permit any person to have access to or custody of any portion of a human resources file designated as confidential by this Article unless otherwise authorized by this Article shall be guilty of a Class 3 misdemeanor and upon conviction shall be fined in the discretion of the court in an amount not to exceed \$500. Any person who examines or copies human resources file material designated as confidential by this Article without lawful authority shall be guilty of a Class 3 misdemeanor and shall be fined in the discretion of the court in an amount not to exceed \$500.

**126A – 51 through 54 are reserved for future codification.**

**ARTICLE 8**  
**FILLING OF VACANCIES; REDUCTION-IN-FORCE; VETERAN'S PREFERENCE;**  
**EMPLOYMENT PRIORITIES**

**126A-55 Filling of Vacancies**

- (a) The Office shall propose, and the Commission shall adopt, pursuant to Article 3, policies and procedures to ensure that vacant positions not exempted under the provisions of 126A-19 are filled from **among** the best qualified applicants ~~practicable~~ considering equity with current employees and fiscal constraints. The Office shall propose, and the Commission shall adopt, pursuant to Article 3, policies that ensure open and fair recruitment and selection processes free of political influence.
- (b) All vacancies for which any State or local agency subject to this Chapter openly recruits shall be posted within at least the following:
  - (1) The human resources office of the agency having the vacancy; and
  - (2) The particular work unit having the vacancy in a location readily accessible to employeesand each posting shall include a closing date, unless granted an exception to such requirement by the Office .
- (c) All positions should have reasonable recruitment requirements including knowledge, skills and abilities.
- (d) If the decision is made, initially or at any time while the vacancy remains open, to receive applicants from outside the recruiting state or local agency, the vacancy shall be posted according to policies of the Commission. The policies of the Commission shall include procedures that address the hiring, promotion or transfer of persons in violation of those policies.
- (e) If a career State employee subject to this section:
  - (1) Applies for another position of State employment that would constitute a promotion and;
  - (2) Has substantially equal qualifications as an applicant who is not a career State employeethen the career State employee shall receive priority consideration over all applicants who are not career State employees.
- (f) Each State or local agency is encouraged to hire qualified applicants who are current or former Work First Program participants.

**126A-56 Policies Implementing the Preference for Veterans in Initial Employment in State Government**

The Office shall propose, and the Commission shall adopt, pursuant to Article 3, policies regarding veteran's status, as well as preference for veterans in initial employment. Notwithstanding any other Articles in G.S. 126A, such policies shall include a description of the employment situations where veteran's preference applies.

**126A-57 Reduction-in-Force**

- (a) Employees to be affected by a reduction-in-force shall be notified in writing of the reduction-in-force not less than 30 days prior to the effective date of the reduction-in-force.



- (b) Every state or local agency with employees subject to this Chapter shall develop criteria and internal policies and procedures for conducting a reduction-in-force in accordance with policies established by the Commission. These policies shall at least include factors and procedures for selecting positions to be abolished or employees to be separated ~~reduced~~ and effective communication to employees affected by a reduction-in-force of rights, privileges, and benefits available.
- (c) The Office shall propose, and the Commission shall adopt, pursuant to Article 3, policies and procedures to provide for priority consideration for State employees separated through a reduction-in-force to enable a State employee's return to regular service. These policies shall provide that the agency that is separating the employee shall be primarily responsible for returning the State employee to regular State service. Such policies and procedures on priority consideration may be applied to employees of local agencies subject to this Chapter at the election of the local appointing authority. Priority consideration under such policies and procedures would apply only to the local agency from which the employee was reduced in force.
- (d) Any person separated from an exempt position subject to the provisions of G.S. 126A-19(o) (1) shall be covered by the policies adopted by the Commission under subsections (c) of this section.
- (e) A State employee who has been separated due to a reduction-in-force shall retain career status as a State employee, provided they are re-employed by any State agency, department, university or institution within 12 months from separation.

#### **126A-58 Employment Priorities; Ranking of Priorities**

The Office, with the approval of the Commission, shall adopt policies, including but not limited to time limits, level of priority and ranking of priorities, where employees are eligible for more than one priority, from the list of the following priorities given to career state employees:

- (a) separated pursuant to a reduction-in-force
- (b) seeking a promotion in career State service, not only within that State employee's home agency but within any state agency subject to this Chapter;
- (c) returning to work from Worker's Compensation;
- (d) supporting the equal employment opportunity philosophy of the State of North Carolina to encourage a diverse and productive State work force;
- (e) any other employment priority adopted in accordance with Article 3 of this Act and supporting career State employees and consistent with a contemporary system of human resources management;
- (f) veteran's preference in initial hiring situations; and
- (g) who are removed from exempt positions but have less than ten (10) years of cumulative State service.

**126A – 59 - 66 are reserved for future codification.**

## ARTICLE 9 – DISCIPLINARY ACTIONS; EMPLOYEE GRIEVANCES

### 126A - 67 Just Cause for Discipline Required

No career employee subject to this Chapter shall be suspended without pay, demoted for disciplinary purposes, or dismissed except for just cause. The procedure for suspension without pay, disciplinary demotion, and dismissal shall be established in the policies and procedures adopted by the Commission pursuant to Article 2 of this Chapter. In contested cases conducted pursuant to Chapter 150B of the General Statutes, the burden of showing that a career State employee subject to the State Personnel Act was discharged, suspended, or demoted for just cause rests with the department or agency employer.

### 126A – 68 Grievance Procedures

- (a) Pursuant to the policy-making provisions set out in Article 3 of this Chapter, the Office shall develop, subject to the approval of the Commission, a grievance procedure for all career employees subject to this Article.
- (b) Employees may use the procedure to grieve only those issues set out in 126A-69. State and local agencies may not allow additional issues to be grieved through the grievance procedure.
- (c) Agencies shall adopt alternative dispute resolution mechanisms to allow employees to address concerns and issues that may not be addressed through the grievance procedure. Employees with issues set out in G. S. 126A-68 may first attempt resolution of that issue or issue through such a process before entering the agency grievance procedure.
- (d) Each state and local agency shall have ninety (90) days to complete the grievance process. State and local agencies and grievants may mutually agree in writing to extend this time limit. If the state or local agency fails to complete the processing of any grievance within the ninety-day period, absent a written mutual agreement to waive the 90 day period, the grievant may elect to discontinue the grievance process and take the grievance directly to the Office of Administrative Hearings.
- (e) An applicant, employee or former employee must file a grievance within the state or local agency or, if permitted, within the agency alternative dispute resolution procedure no later than thirty days from date of the written notification of the action precipitating the grievance or, as to grievances alleging violations of 126A-19(o)(1)(2), 126A-56, 126A- 57, 126A-71, 126-72 or 126A-73, thirty days from the date of the alleged violation. An applicant, employee or former employee who chooses to utilize the state or local agency alternative dispute resolution mechanism, must file a grievance within the agency grievance procedure not later than thirty (30) days from written notification of failure of any alternative dispute resolution process. Failure to file a grievance in accordance with this provision shall be cause for the grievance to be dismissed as untimely.
- (f) Within the time frames set forth in subsection (e) of this section, an applicant may file a grievance arising under 126A-69(10), (11) or (12) either with the agency grievance procedure or directly with the Office of Administrative Hearings.
- (g) All appeals to the Office of Administrative Hearings and the State Employee Appeals Board that allege discrimination or retaliation, may, at the

Petitioner's choice, be referred to the Civil Rights Division of the Office of Administrative Hearings for investigation and conciliation, prior to conducting a hearing, and the contested case shall be stayed during this time period. The Civil Rights Division shall have 180 days in which to complete the investigation and conciliation process. Should the process not be completed within 180 days of filing, the employee or the agency may direct that the matter be referred back to the Contested Case Division for a contested case hearing. If the conciliation process does not resolve the appeal, then the Civil Rights Division shall refer the matter back to the Contested Case Division for a hearing on the merits of the grievance.

- (h) Any State employee having a grievance arising under G.S. 126A-69(12) and which alleges who alleges unlawful harassment or retaliation because of the employee's age, sex, race, color, national origin, religion, creed, or handicapping condition as defined by G.S. 168A-3 shall submit a written complaint to the employee's department or agency. The department or agency shall have 60 days within which to take appropriate remedial action. If the employee is not satisfied with the department or agency's response to the complaint, the employee shall have the right to appeal directly to the Commission.

#### **126A-69 Jurisdiction of the Office of Administrative Hearings over Contested Cases of Employees Subject to the Article**

- (a) Notwithstanding any provision of G.S. 150B Article 3, the Office of Administrative Hearings shall have jurisdiction over appeals as follows:
  - (1) Disciplinary demotion, suspension without pay, and dismissal;
  - (2) Allegations of violations of G.S. 126A-57(a)-(c) Reduction-in-Force.
  - (3) For applicants for vacancies within any state agency, violations of any policy adopted pursuant to G.S. 126A-56 implementing the preference for veterans in initial employment.
  - (4) For applicants, employees and former employees, allegations of violations of any policy adopted pursuant to G.S. 126A-71, G.S. 126A-72 and G.S. 126A-73, Policies Governing the Political Activity of State Employees Subject to this Chapter.
  - (5) For current and former State employees, allegations of violations of any policy adopted pursuant to G.S. 126A-73, Policies Providing for the Protection of State Employees Subject to this Chapter Reporting Improper Government Activities.
  - (6) For employees and former employees who were formerly exempt employees, allegations of violations of G.S. 126A-7 19(o)(1) and (2).
  - (7) Allegations of violations regarding promotional priority pursuant to G.S. 126A-58(b).
  - (8) For applicants and employees subject to Article 8, allegations of violations of G.S. 126A-55 concerning the posting and filling of vacant positions.
  - (9) For applicants and employees, allegations of violation of G.S. 126A-19(c) designation as exempt from this Chapter.
  - (10) For applicants, employees and former employees, allegations of violations of the Americans with Disability Act, Age Discrimination and Employment Act, Fair Labor Standards Act as it relates to hours of work, and the Family and Medical Leave Act as those statutes are applied to employees.

- (11) For applicants, and employees and former employees, allegations that employment, promotion, training, or transfer have been denied or that demotion, layoff, transfer, or termination was forced upon the employee in retaliation for opposition to alleged discrimination or because of the employee's age, sex, race, color, national origin, religion, creed, political affiliation, or disability as defined by G.S. 168A-3 except where specific age, sex or ability requirements constitute a bona fide occupational qualification necessary to properly and efficiently perform the essential job functions.
  - (12) For employees and former employees, and subject to compliance with G.S. 126A-68(h), allegations of:
    - (i) Harassment in the workplace based upon age, sex, race, color, national origin, religion, creed, or disability, whether the harassment is based upon the creation of a hostile work environment or upon a quid pro quo; or
    - (ii) Retaliation for opposition to harassment in the workplace based upon age, sex, race, color, national origin, religion, creed, or disability, whether the harassment is based upon the creation of a hostile work environment or upon a quid pro quo.
  - (13) For current and former employees, denial of an employee's request for removal of allegedly inaccurate or misleading information from the employee's human resources file as provided by G.S. 126A-49, subject to the limitations of G.S. 126A-49(b).
  - (14) For applicants and employees subject to Article 10, an allegation that G.S. 126A-74 was violated.
- (b) Notwithstanding any provision of G.S. 150B Article 3, the Office of Administrative Hearing shall have jurisdiction over all appeals under this Chapter subject to the conditions listed as follows:
- (1) As provided in section 126A-68(a) of this Article, any applicant, employee or former employee, having a grievance arising out of or due to employment with a state or local agency shall follow the grievance procedure of the agency, university, department or institution before filing a petition for a contested case hearing with the Office of Administration Hearings pursuant to Chapter 150B.
  - (2) Any applicant, employee or former State employee, having a grievance arising out of or due to employment with a State or local agency and who is, pursuant to 126-68(g) of this Act alleging prohibited discrimination, harassment or retaliation may file a petition for a contested case hearing pursuant to Chapter 150B directly with the Office of Administrative Hearings without first exhausting the grievance procedure of the agency.

#### **126A-70 Timely Decisions by an Administrative Law Judge**

An administrative law judge must conduct a contested case hearing and render a decision, or render a decision of no jurisdiction within 90 days of receipt of a request for a contested case hearing pursuant to this Act. An administrative law judge must transmit the record to the State Employee Appeal Board, or in the alternative, find no jurisdiction, within 120 days of the conduct of a contested case hearing pursuant to this Act. Failure to conduct a hearing, render a decision

or a finding of no jurisdiction, or transmit a record of such hearing within 120 days from the conclusion of the contested case hearing shall trigger a right of the either party to request that the State Employee Appeals Board appoint an independent hearing officer to conduct the hearing, render a decision and transmit a record to the Board. The cost of providing an independent hearing officer pursuant to this sub-section shall be borne by the Office of Administrative Hearings.

ARTICLE 10 – POLITICAL ACTIVITY, PROTECTION FOR REPORTING  
IMPROPER GOVERNMENT ACTIVITY, COMMUNICATION WITH THE  
GENERAL ASSEMBLY

**126A-71 Appropriate political activity of State employees defined; Political Retaliation Prohibited**

(a) As an individual, each State employee retains all the rights and obligations of citizenship provided in the Constitution and laws of the State of North Carolina and the Constitution and laws of the United States of America; however, no State employee subject to G.S. 126A or temporary State employee shall:

(1) Take any active part in managing a campaign, or campaign for political office or otherwise engage in political activity while on duty or within any period of time during which he is expected to perform services for which he receives compensation from the State;

(2) Otherwise use the authority of his position, or utilize State funds, supplies or vehicles to secure support for or oppose any candidate, party, or issue in an election involving candidates for office or party nominations, or affect the results thereof.

(b) No head of any State department, agency, or institution or other State employee exercising supervisory authority shall make, issue, or enforce any rule or policy the effect of which is to interfere with the right of any State employee as an individual to engage in political activity while not on duty or at times during which he is not performing services for which he receives compensation from the State. A State employee who is or may be expected to perform his duties on a twenty-four hour per day basis shall not be prevented from engaging in political activity except during regularly scheduled working hours or at other times when he is actually performing the duties of his office. The willful violation of this subdivision shall be a Class 1 misdemeanor.

**126A-72. Promise or Threat to obtain political contribution or support.**

(a) It is unlawful for any person to coerce:

(1) A State employee subject to this Chapter,

(2) A probationary State employee,

(3) A temporary State employee, or

(4) An applicant for a position subject to the G.S. 126A

to support or contribute to a political candidate, political committee as defined in G.S. 163-278.6, or political party or to change the party designation of his voter registration by explicitly threatening that change in employment status or discipline or preferential personnel treatment will occur with regard to any person listed in subdivisions (1) through (4) of this subsection.

(b) Any person including State employees and officers violating this section shall be guilty of a Class 2 misdemeanor.

(c) A State employee subject to the G.S. 126A, probationary State employee, or temporary State employee, who without probable cause falsely accuses a person of violating this section shall be subject to discipline or change in employment status in accordance with the provisions of Articles 9 and 10 of this Chapter and may, as otherwise provided by law, be subject to criminal penalties for perjury or civil liability for libel, slander, or malicious prosecution.

**126A-73 Policies Providing for the Protection of State Employees Subject to this Chapter Reporting Improper Government Activity**

- (a) It is the policy of this State that State employees shall be encouraged to report to their supervisor, department head, or other appropriate authority, evidence of activity by a State agency or State employee constituting:
  - (1) A violation of State or federal law, rule or regulation;
  - (2) Fraud;
  - (3) Misappropriation of State resources;
  - (4) Substantial and specific danger to the public health and safety; or
  - (5) Gross mismanagement, a gross waste of monies, or gross abuse of authority.
- (b) Further, it is the policy of this State that State employees be free of intimidation or harassment when reporting to public bodies about matters of public concern; including offering testimony to or testifying before appropriate legislative panels.
- (c) No head of any State department, university, agency or institution or other State employee exercising supervisory authority shall discharge, threaten or otherwise discriminate against a State employee regarding the State employee's compensation, terms, conditions, location, or privileges of employment because the State employee, or a person acting on behalf of the employee, reports or is about to report, verbally or in writing, any activity described in G.S. 126A-73(a) unless the State employee knows or has reason to believe that the report is inaccurate. No State employee shall retaliate against another State employee because the employee, or a person acting on behalf of the employee, reports or is about to report, verbally or in writing, any activity described in G.S. 126A-73(a).
- (d) No head of any State department, university, agency or institution or other State employee exercising supervisory authority shall discharge, threaten or otherwise discriminate against a State employee regarding the employee's compensation, terms, conditions, location or privileges of employment because the State employee has refused to carry out a directive which in fact constitutes a violation of State or federal law, rule or regulation or poses a substantial and specific danger to the public health and safety. No State employee shall retaliate against another State employee because the employee has refused to carry out a directive, which may constitutes a violation of State or Federal law, rule or regulation, or poses a substantial and specific danger to the public health and safety.
- (e) The protections of this Article shall include State employees who report any activity described in G.S. 126A-73(a) to the State Auditor as authorized by G.S. 147-64.6(c)(16).
- (f) Any State employee injured by a violation of G.S. 126A-73(c), G.S. 126A-73(d) or 126A-73(e) may maintain an action in superior court for damages, an injunction, or other remedies provided in G.S. 126A - 73(g) against the person or agency who committed the violation within one year after the occurrence of the violation of G.S. 126A - 73; provided, however, any claim arising under Article 21 of Chapter 95 of the General Statutes may be maintained pursuant to the provisions of that Article only and may be redressed only by the remedies and relief available under that Article.

- (g) A court, in rendering a judgment in an action brought pursuant to G.S. 126A-73, may order an injunction, damages, reinstatement of the employee, the payment of back wages, full reinstatement of fringe benefits and seniority rights, costs, reasonable attorney's fees or any combination of these. If an application for a permanent injunction is granted, the employee shall be awarded costs and reasonable attorney's fees. If in an action for damages the court finds that the employee was injured by a willful violation of G.S. 126A-73(c), G.S. 126A-73(d) or 126A-73(e), the court shall award as damages three times the amount of actual damages plus costs and reasonable attorney's fees against the individual or individuals found to be in violation of G.S. 126A-73(a).
- (h) It shall be the duty of an employer of a State employee to post notice in accordance with G.S. 95-9 or use other appropriate means to keep employees informed of their protections and obligations under this Article.

**126A-74 Communications with Members of the General Assembly**

A state employee has the right to speak to a member of the General Assembly at the member's request. Such rights shall not be directly or indirectly limited by the employee's supervisor or by any policy of the agency that employs that State employee.

**126A-75-79 are reserved for future codification.**



## ARTICLE 11 – LOCAL DISCRETION AS TO LOCAL GOVERNMENT EMPLOYEES

### **126A-80 County ~~or municipal~~ employees may be made subject to rules adopted by local governing body.**

- (a) When a board of county commissioners adopts rules and regulations governing annual leave, sick leave, hours of work, holidays, and the administration of the pay plan for county employees generally and the county rules and regulations are filed with the Director, the county rules will supersede the rules adopted by the Commission as to the county employees otherwise subject to the provisions of this Chapter.
- (b) No county employees otherwise subject to the provisions of this Chapter may be paid a salary less than the minimum nor more than the maximum of the applicable salary range adopted in accordance with this Chapter without approval of the Commission. Provided, however, that subject to the approval of the Commission, a board of county commissioners may adjust the salary ranges applicable to employees who are otherwise subject to the provisions of this Chapter, in order to cause the level of pay to conform to local financial ability and fiscal policy. The Commission shall adopt policies and regulations to ensure that significant relationships within the schedule of salary ranges are maintained.
- (c) When two or more counties are combined into a district or area for the performance of an activity whose employees are subject to the provisions of this Chapter, the boards of county commissioners of the counties may jointly exercise the authority hereinabove granted in subsections (a) and (b) of this section.

### **126A-81 Personnel services to local governmental units.**

The Commission may make the services and facilities of the Office available upon request to the political subdivisions of the State.

### **126A-82 Local ~~personnel~~ human resources system may be established; approval and monitoring; rules and regulations.**

- (a) The board of county commissioners of any county may establish and maintain a ~~personnel~~ human resources system for all employees of the county subject to its jurisdiction, which system, or any subpart of the system, and any substantial changes to the system or its subparts, shall be approved by the Commission as substantially equivalent to the standards established under this Chapter for employees of local departments of social services, local health departments, area mental health programs or Local Management Entities, and local emergency management programs. If approved by the Commission, the employees covered by the county system shall be exempt from all applicable provisions of this Chapter except Articles 4 and 6.
- (b) With approval of each of the boards of commissioners of the county or counties which comprise the area mental health authority or Local Management Entity the area mental health authority may establish and maintain a ~~personnel~~ human resources system for all employees of the area mental health authority or Local Management Entity, which system, or any subpart of the system, and any substantial changes to the system or its subparts, shall be equivalent to the standards established under this Chapter for

employees of area mental health authorities. If approved by the Commission, the employees covered by the area mental health authority or Local Management Entity system shall be exempt from all applicable provisions of this Chapter except Articles 4 and 6.

- (c) A board of county commissioners may petition the Commission to determine whether any portion of its total ~~personnel~~ human resources system meets the requirements in (a) above. Upon such determination, county employees shall be exempt from the provisions of this Chapter relating to the approved portions of the county ~~personnel~~ human resources system.
- (d) The board of an area mental health authority or Local Management Entity, with the approval of each of the boards of commissioners of the county or counties which comprise the area mental health authority or Local Management Entity, may petition the Commission to determine whether any portion of its total ~~personnel~~ human resources system meets the requirements in subsection (a1) above. Upon such determination, area mental health authority or Local Management Entity employees shall be exempt from the provisions of this Chapter relating to the approved portions of the area mental health authority or Local Management Entity ~~personnel~~ human resources system except as provided in G.S. 122C-121.
- (e) The Office shall monitor at least annually county or area mental health authority or Local Management Entity personnel systems approved in whole or in part under this section in order to ensure compliance.
- (f) In order to define "substantially equivalent," the Commission is authorized to promulgate rules and regulations to implement the federal merit system standards and these regulations at a minimum shall include: recruitment and selection of employees; position classification; pay administration; training; employee relations; equal employment opportunity; and records and reports.

#### **126A-83 Notice and Intervention in Contested Cases**

In Contested Case appeals involving local government employees subject to this Chapter pursuant to G.S. 126A-19 (b), the local appointing authority must give the county notice of the appeal. Notice must be given to the county manager or the chairman of the board of county commissioners by certified mail within 15 days of the receipt of the notice of appeal. The county may intervene in the appeal within 30 days of receipt of the notice. If the action is appealed to superior court the county may intervene in the superior court proceeding even if it has not intervened in the administrative proceeding. The decision of the superior court shall be binding on the county even if the county does not intervene.

## Summary of Differences Between the Current State Personnel Act and the Proposed Act

Current State Personnel Act	Proposed State Personnel Act
Administrative office named the Office of State Personnel, and the governing Commission named the State Personnel Commission.	Renamed to Office of Human Resources Management and State Human Resources Commission to reflect contemporary naming conventions in the human resources field.
Overall, the Act is very detailed. This detail restricts the Office of State Personnel in establishing competitive and contemporary human resources programs in a timely manner.	The Act specifies the types of human resources programs that the state needs, the structure of the system, system philosophy, and employee rights. The details of human resources programs are approved by the State Human Resources Commission based on recommendations from the Office of Human Resources Management.
The Commission approves policy and serves as final administrative decision-maker on grievances.	The State Human Resources Commission approves policies and a new State Employee Appeals Board makes final administrative decisions on grievances. The members of the State Human Resources Commission must have Human Resources experience and are given a new role in advising the Office of Human Resources Management on future programs and direction. Supervisory and non-supervisory employees, as well as attorneys, will be represented on the State Employee Appeals Board.
The Office of State Personnel can establish agreements to decentralize decision-making and monitor agencies and universities	Spells out that the Commission can revoke a decentralized agreement. Adds efficiency and effectiveness of agency and university human

Current State Personnel Act	Proposed State Personnel Act
for compliance.	resources programs as reviewable items as the Office of Human Resources Management audits agency and university operations.
Corrective actions for policy violations by agencies and universities not clear.	Allows the State Human Resources Commission to revoke authority to administer human resources programs if agencies and universities are found in non-compliance with policies.
Employees attain career status and rights in two years.	Employees attain career status and rights in one year.
Demonstration projects not allowed.	Allows demonstration projects to test the costs and benefits of new human resources systems prior to implementation statewide.
Incentive programs not allowed.	Authorizes the Commission to approve any human resources program necessary to remain competitive, including incentive programs.
State Employees Incentive Bonus Program is a separate law.	The program has been included in the Act and gainsharing and goalsharing components have been added. The formula for distribution of savings has been changed so that the agencies and universities retain more of the savings.

Current State Personnel Act	Proposed State Personnel Act
There are several exempt employee categories used in agencies, a complex process for identifying exempt positions, and inequalities in the number of exempt positions between Cabinet and Council of State agencies.	Combines exempt employees in agencies into one category, simplifies the process for identifying exempt positions, and allows the same number of exempt positions for all agencies. A new, strict definition for exempt positions requires that they be placed in the top tier of an organizational structure.
Comprehensive Compensation System with increases largely based on time-in-service.	A new compensation system with an across-the-board increase based on average labor market movement that all employees who perform at the satisfactory level will receive; a performance-based increase that will be distributed to employees considering performance, increases in knowledge, skills and abilities, and labor market; and a labor market adjustment fund to correct market inequities. Agencies and universities are given more flexibility to tailor compensation programs to meet their unique circumstances.
Performance management system has five levels of performance.	Allows the establishment of performance management systems with fewer than five levels of performance recognizing that it is impossible to measure five separate levels for some State jobs (Correctional Officer, for example).
Longevity Pay Program for employees with 10 or more years of service.	A two-tier system where new employees are excluded from the longevity pay program. Current employees will not be impacted in any way. Future savings will remain with the agencies and universities

Current State Personnel Act	Proposed State Personnel Act
	for funding compensation programs.
Details regarding types of leave and holidays included in law.	The Commission is authorized to establish leave and benefit programs that are competitive.
New policies and policy revisions must go through the rule-making process.	A separate rule-making process involving a public notice, public hearing, and policy publication process with the Commission serving as the hearing body is established for proposed policies that are internal to State government only. The Commission, after public hearing, approves, amends or rejects proposed policies. New policies and policy changes can be completed in a matter of several months as opposed to more than a year under the current rule- making process.
EEO staff is required, to the extent possible, to have experience in equal employment activities, affirmative action, and be sensitive to individuals with diverse backgrounds.	This requirement has been removed. The Office of State Personnel strives to have qualified individuals in all of its positions.
It is unlawful to accept or receive compensation for assisting an individual in obtaining employment with the State.	This section has been eliminated. For hard-to-recruit areas, the use of private employment firms is cost effective in recruiting qualified employees.
Employees can appeal material placed in their personnel files, including written warnings.	Employees can place information that refutes material placed in their personnel files.
The Commission may adopt alternate dispute resolution procedures for the resolution of matters not constituting grounds for contested cases.	Agencies and universities are required to have dispute resolution processes and employees are required to use these processes before appealing outside their

Current State Personnel Act	Proposed State Personnel Act
	agency or university.
There is no overall limit on the amount of time an agency or university has to process an appeal internally.	A limit of 120 days is established for an agency to complete processing of an employee appeal.
Once an employee has been identified for reduction-in-force, they have priority for jobs that meet certain requirements anywhere in State government.	While still retaining priority throughout State government, more responsibility is placed on the agency or university that eliminates the employee's position to place them in another position.
Once an employee has lost their job due to reduction-in-force, they lose their career status.	If an employee loses their job and is re-employed within one year, the employee retains career status.
Based on years of service, status as a veteran, and other criteria, employees have priority in certain employment situations. These priorities are often not clear.	Clarifies priorities and instructs the Commission to establish a rank order of priorities to use when employees have more than one priority designation.
All local government grievances are heard by the Office of Administrative Hearings and then ruled upon by the Commission. The decision serves as a recommendation only to the local government involved.	Only grievances involving discrimination proceed from the Office of Administrative Hearings to the Commission. The Commission's decision on discrimination cases is binding on the local government involved.
Requires a report on the modification of recruitment requirements used in the selection process.	Eliminates this report.
Interchange of Government Employees Program included in the Act.	Eliminated from the Act. This program will be retained in policy.
Work Options Program included in the Act.	Eliminated from the Act. This program will be retained in policy.
Details of eligibility for Veteran's preference spelled out	Veteran's preference retained. Due to ongoing military campaigns, eligibility requirements continue to change. Gives authority to the

Current State Personnel Act	Proposed State Personnel Act
	Commission to authorize the eligibility of new veteran groups.
There is no overall limit on the amount of time an agency or university has to process an appeal internally.	A limit of 120 days is established for an agency to complete processing of an employee appeal.



## STATE OF NORTH CAROLINA Focus Group Findings

### UNIVERSITY CHANCELLOR/VICE-CHANCELLOR PERCEPTIONS OF STRENGTHS OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### CAREER BANDING

- ◆ Concept is welcomed. It is an important mechanism.
- ◆ Gives each campus more staffing flexibility to address local labor market conditions in different parts of the State.
- ◆ Has helped the Universities look at job descriptions and update them to reflect current essential duties and job requirements.
- ◆ It is more workable than the current system.

## STATE OF NORTH CAROLINA

### Focus Group Findings

#### AGENCY DIRECTOR/DEPUTY DIRECTOR'S PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

##### CAREER BANDING

- ◆ Message during roll-out of career banding created unrealistic expectations by employees due to pent up demand. System was presented as opportunity to address market compensation issues but resources were not made available for implementation. Creates serious difficulties for Universities who must compete in a substantially wider labor market.
- ◆ Given legislative mandates, each employee receives the same amount of increase regardless of performance or skill set in direct conflict with goals of career banding program. Universities do not have the authority to use other resources to fund the program.
- ◆ Career Band width is somewhat limiting relative to SPA jobs in comparison to EPA jobs within the universities.
- ◆ The concept has not been explained clearly enough. OSP appears to be looking at different characteristics than the Universities.

## *STATE OF NORTH CAROLINA*

### Focus Group Findings

- ◆ Since it is a new concept, OSP sometimes gives out conflicting answers to questions.
- ◆ Marketing of program was not managed well. It “seeped out” so it was not well understood from the beginning. “Overpromised” and “Underdelivered”.)

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## STATE OF NORTH CAROLINA Focus Group Findings

### AGENCY DIRECTOR/DEPUTY DIRECTOR'S PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

- ◆ Implementation has created morale problems. Best employees have options other than the State or the Universities.

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## STATE OF NORTH CAROLINA Focus Group Findings

### UNIVERSITY CHANCELLOR/VICE-CHANCELLOR PERCEPTIONS OF CHANGES OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### CAREER BANDING

- ◆ General Assembly should adopt a statewide compensation philosophy or allow each Agency to set.
- ◆ Allow agencies to budget at a higher rate than the minimum (e.g. market median rates).
- ◆ Should proceed with career banding for some classes but not all. Some of the non-exempt classes do not lend themselves to this concept.
- ◆ Pace of work at OSP not consistent with University needs. Some market data is out of date by the time it is needed.
- ◆ Vacant positions exist for various reasons. Vacant positions should not be “taken” by the General Assembly since those resources are critical for funding the program.

## *STATE OF NORTH CAROLINA*

### Focus Group Findings

- ◆ Internal oversight process is based on a traditional classification and compensation model and not a career banding model. Result is pressure to make the career banding model work like the old traditional system.

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## STATE OF NORTH CAROLINA Focus Group Findings

### UNIVERSITY CHANCELLOR/VICE-CHANCELLOR PERCEPTIONS OF STRENGTHS OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### TRAINING

- ◆ OSP's Certified Public Manager training program is good and well structured.
- ◆ Training required for maintenance of mandatory licenses/credentials is generally available.
- ◆ Tailored, in-house, training is offered by most of the Universities to supervisors and managers. Larger institutions have greater opportunity than smaller institutions.

## STATE OF NORTH CAROLINA Focus Group Findings

### UNIVERSITY CHANCELLOR/VICE-CHANCELLOR PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### TRAINING

- ◆ Certified Public Manager training program is not adequately funded to cover all managers in the State. Only about 20% of managers have been able to get the necessary training due to the limitation on the number of available slots and self-nomination process.
- ◆ Each University is creating and funding its own training programs.
- ◆ Lack of training opportunities demonstrates a lack of commitment to the employee population.
- ◆ The State culture does not support the development of its employees.
- ◆ OSP training is not sufficient to cover all areas of need.
- ◆ Training does not add to the talent of the employees for what is needed in the job. It cannot make up for lack of general skills and capabilities of the employees at hire.



## *STATE OF NORTH CAROLINA*

### Focus Group Findings

- ◆ Succession planning is not practiced. This is especially critical when someone retires. There is no opportunity to hire a replacement who can be trained by the retiree.

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## **STATE OF NORTH CAROLINA**

### **Focus Group Findings**

#### **UNIVERSITY CHANCELLOR/VICE-CHANCELLOR PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM**

- ◆ Leadership training is needed but to get it the agencies have to partner with the community colleges. Universities should have access to the curriculum.
- ◆ State has not defined whether employees should receive supervisory/management training before or after they have been appointed to position. As a result, employees are often unprepared for their new role and then resources are not available after appointment to teach them the necessary skills to properly do the job.

## STATE OF NORTH CAROLINA Focus Group Findings

### UNIVERSITY CHANCELLOR/VICE-CHANCELLOR PERCEPTIONS OF STRENGTHS OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### RECRUITMENT

- ◆ Recruitment is tailored to each position and agency.
- ◆ There are fewer restrictions on recruitment than in other areas. Procedures are well defined.
- ◆ OSP reviews at the end of the stage to assure fairness.

## STATE OF NORTH CAROLINA

### Focus Group Findings

#### UNIVERSITY CHANCELLOR/VICE-CHANCELLOR PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

##### RECRUITMENT

- ◆ No real system or University/Statewide recruitment strategy. Each campus identifies people and then fights to get them.
- ◆ Passive system. Applicant driven. Recruitment of candidates is not a normal practice for except for specialized positions. Recruitment is reactive unless position is at higher level.
- ◆ Difficulty in filling professional positions. Salary levels are at least 10-15% or more below competitive market.
- ◆ Geographical pay differentials may allow campuses to recruit employees in higher cost areas.
- ◆ Don't have the flexibility to offer flex scheduling, part time work, bonuses, career advancement or leave incentives that others can offer, so the Universities are at a disadvantage compared to other employers who can.

## *STATE OF NORTH CAROLINA*

### Focus Group Findings

- ◆ Candidates identified by one campus but not selected are not made available to other campuses resulting in considerable duplication of effort on part of both the Universities and applicants (no repository for good referrals such as nurses.)

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## STATE OF NORTH CAROLINA

### Focus Group Findings

#### UNIVERSITY CHANCELLOR/VICE-CHANCELLOR PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

- ◆ Cannot always get best-qualified people into jobs because of internal focus. Outside recruitment is outside of the way the State operates versus the market. Statute says to hire the most qualified but OSP interprets this provision. Hiring manager is not in control.
- ◆ Staffing process and needs are in direct conflict with the State Budget Act (line item by General Assembly rather than aggregate funding for personnel needs.)
- ◆ Recruitment for State is not consistent with the environment today (shrinking pool of skilled applicants in an expanding market of job opportunities.)
- ◆ Recruitment incentives such as signing bonuses are not available when needed.
- ◆ Compensation levels limit ability to recruit top candidates, especially at management and executive levels. In some cases, department heads make less than subordinates impeding recruitment.

## *STATE OF NORTH CAROLINA*

### Focus Group Findings

- ◆ Unable to make retention offer to an employee when another State agency or University is being considered by an employee.

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# STATE OF NORTH CAROLINA

## Focus Group Findings

### UNIVERSITY CHANCELLOR/VICE-CHANCELLOR PERCEPTIONS OF CHANGES TO THE OFFICE OF STATE PERSONNEL SYSTEM

#### RECRUITMENT

- ◆ OSP role needs to be more strategic rather than a gatekeeper.

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# STATE OF NORTH CAROLINA

## Focus Group Findings

### UNIVERSITY CHANCELLOR/VICE-CHANCELLOR PERCEPTIONS OF STRENGTHS OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### TERMINATION

- ◆ Mediation system is working fairly well.
- ◆ Probationary period for new employees is generally effective.

## STATE OF NORTH CAROLINA

### Focus Group Findings

#### UNIVERSITY CHANCELLOR/VICE-CHANCELLOR PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

##### TERMINATION

- ◆ Making terminations stick because of extensive appeals process is problematic. Mediation should be mandatory before outside appeals are allowed.
- ◆ Process takes too much time and is too complex. Two of the six appeals steps should be eliminated.

## *STATE OF NORTH CAROLINA*

### Focus Group Findings

#### UNIVERSITY CHANCELLOR/VICE-CHANCELLOR PERCEPTIONS OF STRENGTHS OF THE OFFICE OF STATE PERSONNEL SYSTEM

##### APPEALS

- ◆ Mediation system is working fairly well.
- ◆ Employee based process (six levels of appeal).

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## *STATE OF NORTH CAROLINA*

### Focus Group Findings

#### UNIVERSITY CHANCELLOR/VICE-CHANCELLOR PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

##### APPEALS

- ◆ Mediation is not used as extensively as it could be resulting in prolonged appeals process. Should be mandatory.

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## *STATE OF NORTH CAROLINA*

### Focus Group Findings

#### UNIVERSITY CHANCELLOR/VICE-CHANCELLOR PERCEPTIONS OF CHANGES TO THE OFFICE OF STATE PERSONNEL SYSTEM

- ◆ Eliminate the Office of Administrative Hearings in the process.
- ◆ Should institute an accelerated appeals process.
- ◆ Require mediation.

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## *STATE OF NORTH CAROLINA*

### Focus Group Findings

#### UNIVERSITY CHANCELLOR/VICE-CHANCELLOR PERCEPTIONS OF STRENGTHS OF THE OFFICE OF STATE PERSONNEL SYSTEM

##### CLASSIFICATION

- ◆ No positive comments were made about the current classification system.

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## STATE OF NORTH CAROLINA Focus Group Findings

### UNIVERSITY CHANCELLOR/VICE-CHANCELLOR PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### CLASSIFICATION

- ◆ Too many job classifications to effectively manage. Most descriptions are out of date.
- ◆ Too restrictive.
- ◆ OSP is reluctant to create new positions at higher levels.
- ◆ Higher paying jobs are viewed as not necessary.
- ◆ Pay at the bottom of the ranks is a problem for recruitment.
- ◆ Have not had a pay for performance increase in years because it has not been funded. Even when funded, unable to make rewards at the Director level.

## STATE OF NORTH CAROLINA Focus Group Findings

### UNIVERSITY CHANCELLOR/VICE-CHANCELLOR PERCEPTIONS OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### OTHER

- ◆ Pension system and employee benefits programs are administered independently of the State's personnel system. All three programs need to be integrated in order to address total compensation.
- ◆ Universities that operate their own payroll system can offer optional benefits that are employee funded while other universities and State agencies are unable to make similar offerings.
- ◆ The Universities are different in terms of external labor market than other State agencies. Many jobs are recruited nationally rather than locally. Competitiveness is a major concern.



## STATE OF NORTH CAROLINA

### Focus Group Findings

#### AGENCY DIRECTOR/DEPUTY DIRECTOR'S PERCEPTIONS OF STRENGTHS OF THE OFFICE OF STATE PERSONNEL SYSTEM

##### CAREER BANDING

- ◆ The system can, and does, work well for some professional jobs, but it should not be applied to all jobs.
- ◆ Gives agencies more staffing flexibility, but funding needs to be available for increased competency attainment. Easier to hire external candidates if agency has available dollars.
- ◆ Without Banding, employees had to leave the occupation to receive an increase. Banding allows the employee to stay in their occupation. This is a more cost efficient use of personnel.
- ◆ Banding forces agencies to critically assess their manpower needs and adjust staff accordingly.
- ◆ Banding allows for a reduction in pay without the consequences of a demotion and resulting paperwork.

## *STATE OF NORTH CAROLINA*

### Focus Group Findings

- ◆ It is more equitable than the current system.

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## STATE OF NORTH CAROLINA

### Focus Group Findings

#### AGENCY DIRECTOR/DEPUTY DIRECTOR'S PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

##### CAREER BANDING

- ◆ System was presented as cost neutral but resources were not made available for implementation including extensive employee and management training regarding the concept and the system given the extensive change needed in organizational culture to make the system work effectively. Agencies were given a potentially viable tool but not taught how to use it properly.
- ◆ Lack of funding for competency advancement makes it difficult to make the system work in the real world. Internal hires and promotions are difficult.
- ◆ Lack of increases for competency increase is a serious morale issue for employees.
- ◆ Small agencies do not have the salary reserve money to allow them to make career banding effective with pay increases. Large agencies do not have sufficient flexibility to use salary reserves given the State's budgeting process.

## *STATE OF NORTH CAROLINA*

### Focus Group Findings

- ◆ The concept has not been explained clearly enough. OSP appears to be looking at different characteristics than the agencies.
- ◆ Since it is a new concept, OSP sometimes gives out conflicting answers to questions.

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## STATE OF NORTH CAROLINA Focus Group Findings

### AGENCY DIRECTOR/DEPUTY DIRECTOR'S PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

- ◆ Some jobs were placed in the same band that should not have been together.
- ◆ Marketing or program was not managed well. It “seeped out” so it was not well understood from the beginning. “Overpromised” and “Underdelivered”.)
- ◆ Implementation has created morale problems. Best employees have options other than the State.

## STATE OF NORTH CAROLINA

### Focus Group Findings

#### AGENCY DIRECTOR/DEPUTY DIRECTOR'S PERCEPTIONS OF CHANGES OF THE OFFICE OF STATE PERSONNEL SYSTEM

##### CAREER BANDING

- ◆ General Assembly should adopt a statewide compensation philosophy similar to that which is used for teachers (pay at the market median.)
- ◆ Allow agencies to budget at a higher rate than the minimum (market median rates).
- ◆ Should proceed with career banding for some classes but not all. Some of the non-exempt classes do not lend themselves to this concept.
- ◆ Lack of coordinated appropriations approach by General Assembly (different appropriations subcommittees address the various Agency budgets) and often without OSP input. Result is lack of consistent approach or philosophy about compensation budgets.
- ◆ Vacant positions exist for various reasons. Vacant positions should not be “taken” by the General Assembly since those resources are critical for funding the program.

## *STATE OF NORTH CAROLINA*

### Focus Group Findings

- ◆ Smaller agencies are often used as a training ground by the State's service agencies (e.g. Fiscal Analyst, OSP.) Result is bad information and lower level of service.

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## *STATE OF NORTH CAROLINA*

### Focus Group Findings

#### AGENCY DIRECTOR/DEPUTY DIRECTOR'S PERCEPTIONS OF CHANGES OF THE OFFICE OF STATE PERSONNEL SYSTEM

- ◆ Banding takes time. Given staff decreases and other initiatives (the Controller's Beacon project), creates a greater burden on small agencies.

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## *STATE OF NORTH CAROLINA*

### Focus Group Findings

#### AGENCY DIRECTOR/DEPUTY DIRECTOR'S PERCEPTIONS OF CURRENT STRENGTHS OF THE OFFICE OF STATE PERSONNEL SYSTEM

##### TRAINING

- ◆ Certified Public Manager training program is good and well structured.
- ◆ Training required for maintenance of mandatory licenses/credentials is generally available (e.g. accountants, attorneys, engineers.)
- ◆ Tailored, in-house, training is offered by larger agencies to supervisors and managers.

## STATE OF NORTH CAROLINA

### Focus Group Findings

#### AGENCY DIRECTOR/DEPUTY DIRECTOR'S PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

##### TRAINING

- ◆ Certified Public Manager training program is not adequately funded to cover all managers in the State. Only about 20% of managers have been able to get the necessary training due to the limitation on the number of available slots and self-nomination process.
- ◆ Career development training opportunities are extremely limited and most agencies are not able to provide either training opportunities to employees.
- ◆ While larger agencies have resources to provide some training to supervisors, most agencies do not provide any training to new supervisors or managers.
- ◆ Lack of training opportunities demonstrates a lack of commitment to the employee population.
- ◆ Small agencies do not fair well with training for employees, because of a lack of money.
- ◆ The State culture does not support the development of its employees.

*STATE OF NORTH CAROLINA*  
Focus Group Findings

- ◆ OSP training is not sufficient to cover all areas of need.

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## STATE OF NORTH CAROLINA

### Focus Group Findings

#### AGENCY DIRECTOR/DEPUTY DIRECTOR'S PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

- ◆ Training does not add to the talent of the employees for what is needed in the job. It cannot make up for lack of general skills and capabilities of the employees at hire.
- ◆ Succession planning is not practiced. This is especially critical when someone retires. There is no opportunity to hire a replacement who can be trained by the retiree.
- ◆ Leadership training is needed but to get it the agencies have to partner with the community colleges and it must be linked to a career ladder.
- ◆ There is no line item budgeted for training.
- ◆ State has not defined whether employees should receive supervisory/management training before or after they have been appointed to position. As a result, employees are often unprepared for their new role and then resources are not available after appointment to teach them the necessary skills to properly do the job.
- ◆ No incentive to send employees to specialized courses since there is no mechanism to allow contracts with employees to reimburse State should the employee leave State

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### Focus Group Findings

employment within a specified period of time (very common practice in other governments as well as the private sector.)

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## STATE OF NORTH CAROLINA

### Focus Group Findings

#### AGENCY DIRECTOR/DEPUTY DIRECTOR'S PERCEPTIONS OF STRENGTHS OF THE OFFICE OF STATE PERSONNEL SYSTEM

##### RECRUITMENT

- ◆ Recruitment is tailored to each position and agency.
- ◆ There are fewer restrictions on recruitment than in other areas. Procedures are well defined.
- ◆ OSP reviews at the end of the stage to assure fairness.
- ◆ OSP has done a Staffing Capital Plan, as well as an executive compensation study.

## STATE OF NORTH CAROLINA Focus Group Findings

### AGENCY DIRECTOR/DEPUTY DIRECTOR'S PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### RECRUITMENT

- ◆ No real system or statewide recruitment strategy. Each agency identifies people and then fights to get them.
- ◆ Passive system. Applicant driven. Recruitment of candidates is not a normal practice for the State but rather, it is the exception.
- ◆ Difficulty in finding professional positions.
- ◆ Sometimes agencies need to go to temp agencies to obtain qualified applicants to fill needed positions. They want the flexibility of the temp agency to full time work in the State.
- ◆ Geographical pay differentials may allow agencies to recruit employees in higher cost areas.

## *STATE OF NORTH CAROLINA*

### Focus Group Findings

- ◆ Don't have the flexibility to offer flex scheduling, part time work, bonuses, career advancement or leave incentives that others can offer, so State is at a disadvantage compared to other employers who can.

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## STATE OF NORTH CAROLINA

### Focus Group Findings

#### AGENCY DIRECTOR/DEPUTY DIRECTOR'S PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

- ◆ Candidates identified by one agency but not selected are not made available to other agencies resulting in considerable duplication of effort on part of both State and applicants (no repository for good referrals such as nurses.)
- ◆ Cannot always get best-qualified people into jobs because of internal focus. Outside recruitment is outside of the way the State operates versus the market.
- ◆ Staffing process and needs are in direct conflict with the State Budget Act (line item by General Assembly rather than aggregate funding for personnel needs.)
- ◆ Recruitment for State is not consistent with the environment today (shrinking pool of skilled applicants in an expanding market of job opportunities.)
- ◆ Recruitment incentives such as signing bonuses are not available when needed.
- ◆ Compensation levels limit ability to recruit top candidates, especially at management and executive levels. In some cases, department heads make less than subordinates impeding recruitment.

## *STATE OF NORTH CAROLINA*

### Focus Group Findings

- ◆ Compensation levels are less than the Universities for the same job, so applicants do not stay at the State jobs when a vacancy opens at a nearby university.

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## STATE OF NORTH CAROLINA Focus Group Findings

### AGENCY DIRECTOR/DEPUTY DIRECTOR'S PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

- ◆ Recruitment system does not target the posting in the right locations to find applicants.

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## STATE OF NORTH CAROLINA

### Focus Group Findings

#### AGENCY DIRECTOR/DEPUTY DIRECTOR'S PERCEPTIONS OF CHANGES TO THE OFFICE OF STATE PERSONNEL SYSTEM

##### RECRUITMENT

- ◆ On retirement, allow for the agency to post the position so that there can be an overlap of personnel so that institutional knowledge does not leave with the retirement.
- ◆ Establish a recruitment process to get and find people that may not respond to a posting.
- ◆ Allow for continuous posting for hard to fill positions.

## STATE OF NORTH CAROLINA Focus Group Findings

### AGENCY DIRECTOR/DEPUTY DIRECTOR'S PERCEPTIONS OF STRENGTHS OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### TERMINATION

- ◆ Mediation system is working fairly well.
- ◆ Probationary period for new employees is generally effective.

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## STATE OF NORTH CAROLINA Focus Group Findings

### AGENCY DIRECTOR/DEPUTY DIRECTOR'S PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### TERMINATION

- ◆ Making terminations stick because of extensive appeals process is problematic.
- ◆ Process takes way too much time.
- ◆ Process can be too expensive for the average employee to appeal.

## STATE OF NORTH CAROLINA Focus Group Findings

### AGENCY DIRECTOR/DEPUTY DIRECTOR'S PERCEPTIONS OF STRENGTHS OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### APPEALS

- ◆ Mediation system is working fairly well.
- ◆ Employee based process (six levels of appeal).

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## STATE OF NORTH CAROLINA Focus Group Findings

### AGENCY DIRECTOR/DEPUTY DIRECTOR'S PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### APPEALS

- ◆ Mediation is not used as extensively as it could be resulting in prolonged appeals process.

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## STATE OF NORTH CAROLINA Focus Group Findings

### AGENCY DIRECTOR/DEPUTY DIRECTOR'S PERCEPTIONS OF CHANGES TO THE OFFICE OF STATE PERSONNEL SYSTEM

- ◆ Reduce the amount of time the office of Administrative Hearings reviews the case. (Could be a shortage of personnel).
- ◆ Eliminate the Office of Administrative Hearings in the process.
- ◆ Should institute an accelerated appeals process.
- ◆ Require mediation with an ALJ.

# *STATE OF NORTH CAROLINA*

## Focus Group Findings

### AGENCY DIRECTOR/DEPUTY DIRECTOR'S PERCEPTIONS OF STRENGTHS OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### CLASSIFICATION

- ◆ No comments were made.

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## STATE OF NORTH CAROLINA

### Focus Group Findings

#### AGENCY DIRECTOR/DEPUTY DIRECTOR'S PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

##### CLASSIFICATION

- ◆ Some new jobs need to be created because of new technologies.
- ◆ Too restrictive.
- ◆ OSP is reluctant to create new positions at higher levels.
- ◆ Higher paying jobs are viewed as not necessary.
- ◆ Similar jobs in smaller agencies are in lower grades than in larger agencies.
- ◆ There is lots of churn at the entry levels but lots of stability at the top.
- ◆ Pay at the bottom of the ranks is a problem for recruitment.
- ◆ Have not had a pay for performance increase in years because it has not been funded.

## STATE OF NORTH CAROLINA Focus Group Findings

### MANAGERS' PERCEPTIONS OF STRENGTHS OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### CAREER BANDING

- ◆ Career banding is superior to the existing system, if funded, and provides for more supervisory flexibility and broader compensation opportunities in the management of employees.
- ◆ Career banding provides a needed focus on performance recognition.
- ◆ Banding gives managers and employees “something positive to work towards”.

## STATE OF NORTH CAROLINA Focus Group Findings

### MANAGERS' PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### CAREER BANDING

- ◆ Does not appear to be understood by most operating managers.
- ◆ Budget/Salary is not there to support the career banding effort.
- ◆ Banding ranges create recruiting challenges in that applicants are misled to apply by the breadth of the range and drop out of the process upon discovery of the reality of the budget.
- ◆ There is a perception that the banding roll-out lacks standard application as to how employees are placed within the ranges. HR (departmental and OSP) is not consistent in its interpretation.
- ◆ There is concern that the “start-stop” banding process has created increased dissatisfaction among employees who feel there are two systems in effect with different rules and paperwork. The perception among some banded employees is that those in the old system at least have access to reclass to obtain additional salary.

## *STATE OF NORTH CAROLINA*

### Focus Group Findings

- ◆ A perception exists that same jobs have differing pay plans/salary potential and different definitions of levels such as “journeyman” agency to agency rather than a standard approach as advertised for banding.

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## STATE OF NORTH CAROLINA Focus Group Findings

### MANAGERS' PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

- ◆ Concern was expressed that the dual system has resulted in some cases where lower level banded employees may have better salaries than higher level non-banded employees resulting in higher level employees taking a demotion for a time to access the banded salary and then reapplying for their former job carrying the grandfathered higher salary back with them.
- ◆ Career banding implementation issues were noted including the lack of adequate HR support, the “learn as you go” roll-out, the lack of communication to employees to help them understand the process, and the excessive amount of documentation required still resulting in inappropriate competency definitions.
- ◆ There is a perception that some employees already involved with skill-based compensation will be less well-off under career banding.
- ◆ There is concern that employees believe that they will be more subjectively disadvantaged under banding salary-wise by the “good ole boy” system which may supplant cost of living related compensation which can be counted on as “objective”.

## *STATE OF NORTH CAROLINA*

### Focus Group Findings

- ◆ Even with Career Banding, salary management practices follow the old system thereby negating the value of the new system.

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## STATE OF NORTH CAROLINA

### Focus Group Findings

#### MANAGERS' PERCEPTIONS OF CHANGES OF THE OFFICE OF STATE PERSONNEL SYSTEM

##### CAREER BANDING

- ◆ Provide the funding to fully implement the banding that has been rolled-out.
- ◆ Provide education to both employees and managers regarding the concept.
- ◆ Proceed with banding (and funding for banding) across the board to provide standardization and a level playing field for all employees.
- ◆ Create better standardized guidelines and communication tools for use by all to eliminate confusion and the inequities created by the lack of consistency.
- ◆ Provide supervisors more training relative to managing under career banding and make the “advertised” compensation and related management tools available to supervisors.
- ◆ Troubleshoot the equity issues to address the perception that new hires and/or lower level technicians have disproportionate access to new salary.

## *STATE OF NORTH CAROLINA*

### Focus Group Findings

- ◆ Use the market median compensation funding approach for teachers as a statewide employee compensation model.

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## STATE OF NORTH CAROLINA Focus Group Findings

### MANAGERS' PERCEPTIONS OF STRENGTHS OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### TRAINING

- ◆ Manager perception is that training for employees is very good and available with time off to access training in many agencies even though some employees are dissatisfied at less than “T.V.” illustrated skill attainment.

## STATE OF NORTH CAROLINA

### Focus Group Findings

#### MANAGERS' PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

##### TRAINING

- ◆ When individuals are promoted to management, there is not sufficient supervisory training available and/or time to take management training is not available. Managers estimate that only 20% have been through the manager training program offered by OSP.
- ◆ Compliance training is offered but not always in an appropriate format or length (e.g. 3 day EEO training program for Managers.)
- ◆ Concern was expressed that many of the centralized trainers do not adequately understand the work environments under discussion resulting in the teaching of the “perfect world” rather how things really work. Once training is completed, there are few opportunities to reinforce what has been taught.
- ◆ There is a perception that new employee orientation ranges from formal relevant training to reading the website.

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### **Focus Group Findings**

- ◆ There is not enough budget for training resulting in personal expenditure on the part of employees to keep licenses and certifications active. While tuition reimbursement is available, it is discretionary on the part of each Agency.

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## STATE OF NORTH CAROLINA

### Focus Group Findings

#### MANAGERS' PERCEPTIONS OF CHANGES OF THE OFFICE OF STATE PERSONNEL SYSTEM

##### TRAINING

- ◆ Provide additional budget for training. Increase the distance learning options particularly for the rural employees who cannot travel often to Raleigh for training opportunities.
- ◆ Provide, at a minimum, the training opportunities and budget to maintain and achieve required licenses and certifications.
- ◆ Institute a standard mentoring process with associated rewards to augment the formal training.
- ◆ Consider standardized new manager training to include the management of career banding.

## STATE OF NORTH CAROLINA

### Focus Group Findings

#### MANAGERS' PERCEPTIONS OF STRENGTHS OF THE OFFICE OF STATE PERSONNEL SYSTEM

##### RECRUITMENT

- ◆ Security of employment is perceived as the greatest recruiting benefit but there is a feeling that the benefits have eroded such that applicants can get better health coverage, for example, in private industry.
- ◆ Career banding, where available, is a plus in creating larger pools of applicants due to wide advertised range of potential salary.
- ◆ Some agencies (universities, libraries, police, and forestry) attract applicant due to the “ambience” of the work environment.
- ◆ In the rural areas, it is perceived that the proximity to work given gas prices attracts applicants who might not otherwise be interested given salary considerations.

## STATE OF NORTH CAROLINA

### Focus Group Findings

#### MANAGERS' PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

##### RECRUITMENT

- ◆ Salary is not competitive with other public agencies or the private sector resulting in too few qualified applicants for openings.
- ◆ Recruitment is handled by each Agency independently. Not all positions are posted on the OSP system. Applicants must respond to multiple Agencies if interested in State employment.
- ◆ Qualified applicants are lost often due to the length of the recruitment/hiring process (60-90 days is reported as being fairly common.) It is perceived that impending vacancies cannot be posted until the incumbent is fully paid out and then the layers of approvals once selections are made result in a lag of six months or more.
- ◆ Since employees believe that additional salary opportunity is not budgeted if they stay in existing jobs, the recruitment process is swollen with internal applicants changing jobs to access additional salary.



## *STATE OF NORTH CAROLINA*

### Focus Group Findings

- ◆ The equity process is a problem for recruitment when new applicants will only apply at salaries in excess of those received by existing employees.

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## STATE OF NORTH CAROLINA Focus Group Findings

### MANAGERS' PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

- ◆ Although the State's benefits support the recruitment process, there is a perception that the State is more conservative than private industry relative to same sex relationships.
- ◆ Only about ½ of the Agencies allow electronic filing of applications. Remainder still use a manual process for applications.
- ◆ For some professions, the broader career band pay ranges advertised attract applicants who feel that it is "bait and switch" since there is not budget to hire at other than the entry level and there is no recent history of movement within the pay bands.
- ◆ There is a belief that, particularly given career banding and the shortage of applicants in many areas, recruitments can result in new hires with more compensation than the "lifers" without attention to equity.
- ◆ Concern was expressed that recruitment is particularly difficult in the rural areas because the pay scales are less than in the urban centers but the cost of real estate,

## *STATE OF NORTH CAROLINA*

### Focus Group Findings

etc. has gone up dramatically in the last few years. Prospective state applicants will move to the higher pay labor markets.

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## *STATE OF NORTH CAROLINA*

### Focus Group Findings

#### MANAGERS' PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

- ◆ Perception is that many recruitments are deliberately delayed to “save money” at the expense of overworking the employees left and creating even more turnover. These factors, along with the long length of the recruiting process under normal circumstances, were cited as factors related to losing vacant positions.
- ◆ Multiple levels of approval are required prior to making a job offer. This delays the process and diminishes the authority of the operating managers.
- ◆ There are no incentives for employees to remain after 30 years of service given the limited number of qualified applicants in certain fields.

## STATE OF NORTH CAROLINA

### Focus Group Findings

#### MANAGERS' PERCEPTIONS OF CHANGES TO THE OFFICE OF STATE PERSONNEL SYSTEM

##### RECRUITMENT

- ◆ The recruitment and hiring process should be made more efficient to avoid losing applicants who cannot/will not wait the extended period currently needed to become a State employee.
- ◆ Acquire budget to recruit at a market-competitive salary and advertise realistic hiring ranges.
- ◆ Attention should be given to branding State service particularly in the General Assembly where negative statements may discourage prospective applicants. Engage with the media and employ marketing techniques to raise the public perception of State employment including the comparison of benefits to the private sector.

## STATE OF NORTH CAROLINA Focus Group Findings

### MANAGERS' PERCEPTIONS OF STRENGTHS OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### TERMINATION

- ◆ Many feel that termination policy is well communicated and understood.
- ◆ The perception is that supervisors who do a good job of documentation and follow the prescribed procedures can deal with most clearly dysfunctional employees.
- ◆ The nine month probation process allows for dismissal without lengthy documentation if the employee is not adjusting to the job.
- ◆ Employee relations specialists do a good job of advising employees and supervisors during the termination process.

## STATE OF NORTH CAROLINA Focus Group Findings

### MANAGERS' PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### TERMINATION

- ◆ There is no probationary period for employees who promote or transfer to a new position.
- ◆ The documentation process is too long to accomplish in some cases and leaves dysfunctional employees in place for extended periods impacting morale.
- ◆ When supervisors do not want to undertake the labor-intensive documentation process, good recommendations and transfers for dysfunctional employees result.
- ◆ Supervisors believe it appropriate to “encourage” poor performing employees with good performance ratings to create incentive to do a better job. If the employee does not rise to the challenge, the documentation and paperwork process to address the problem is extended further.

## **STATE OF NORTH CAROLINA**

### **Focus Group Findings**

- ◆ Many “working” supervisors may understand the documentation needed but do not have the time to devote to termination documentation since little of their time is available for management versus participating in the productivity of their unit.
- ◆ There is a perception that supervisors are not allowed to counsel problem employees to resign because that has legal ramifications associated with obviating their appeal rights.

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# STATE OF NORTH CAROLINA

## Focus Group Findings

### MANAGERS' PERCEPTIONS OF CHANGES TO THE OFFICE OF STATE PERSONNEL SYSTEM

#### TERMINATION

- ◆ Establish a probationary period for promotions and transfers.
- ◆ Create consequences for supervisors who “pass around” dysfunctional employees rather than undertaking the termination documentation.
- ◆ Consider alternatives to retaining low-performing and unqualified personnel based on the expectation of legal process and/or the perception of lack of other applicants. The feeling is that the current atmosphere promotes low morale and the negative public perception of State employees.
- ◆ Consider review of the documentation/counseling process to eliminate duplication and time lapse to the extent possible and legally appropriate.
- ◆ Consider “private sector” style termination process for appropriate State functions.

## STATE OF NORTH CAROLINA

### Focus Group Findings

#### MANAGERS' PERCEPTIONS OF STRENGTHS OF THE OFFICE OF STATE PERSONNEL SYSTEM

##### APPEALS

- ◆ Managers and employees know where to go to understand appeal and grievance rights.
- ◆ The perception is that HR provides sufficient guidance to execute the process.
- ◆ Managers believe that they understand and can execute the necessary documentation process even if it is lengthy and cumbersome.
- ◆ Current lack of salary differentiation for performance has minimized the use of appeals of performance reviews resulting in less pressure on the grievance/appeals process.

## STATE OF NORTH CAROLINA Focus Group Findings

### MANAGERS' PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### APPEALS

- ◆ The lack of training/understanding of performance management may result in employees filing grievances for receipt of less than outstanding ratings for meeting the minimum requirements of their jobs although such appeals are more prevalent among those who have experienced merit pay in the past.
- ◆ There is a perception that some appeals are a result of “hurt feelings” more than actual impact that might be mitigated with training and counseling.
- ◆ Six-level appeal process (including external remedies) is burdensome to supervisors and managers.

## STATE OF NORTH CAROLINA

### Focus Group Findings

#### MANAGERS' PERCEPTIONS OF CHANGES TO THE OFFICE OF STATE PERSONNEL SYSTEM

##### APPEALS

- ◆ There may be fewer appeals if substandard and/or misbehaving employees were counseled and given an opportunity to resign gracefully.
- ◆ Simplifying the appeals process would provide incentive to Supervisors and Managers to address problems.
- ◆ More adequate and/or frequent performance management training might increase awareness about the use of “good” rather than “outstanding” ratings for minimally compliant employees and reduce the frequency of grievances.

## STATE OF NORTH CAROLINA Focus Group Findings

### MANAGERS' PERCEPTIONS OF STRENGTHS OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### CLASSIFICATION

- ◆ Many are excited about the State's efforts to move to a more modern classification system associated with career banding and/or skill-based pay.

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## STATE OF NORTH CAROLINA Focus Group Findings

### MANAGERS' PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### CLASSIFICATION

- ◆ Many feel the current classification system is “antiquated” and does not adequately reflect the nature of jobs today versus historically.
- ◆ There is frustration that reclasses are hard to come by given the expected transition to career banding, which is now on hold. As a result, employees with new/additional duties are performing without either compensation or class recognition.
- ◆ There is a perception that there are too many classes and that overlap occurs.
- ◆ Classification is perceived as somewhat meaningless since there is no budget to recognize differentiation in either performance or modifications in work process or skills.
- ◆ There are concerns about employees in the same class sitting side by side with exempt employees receiving significantly better benefits.

## STATE OF NORTH CAROLINA

### Focus Group Findings

#### MANAGERS' PERCEPTIONS OF CHANGES TO THE OFFICE OF STATE PERSONNEL SYSTEM

##### CLASSIFICATION

- ◆ Either roll-out career banding across the board and replace the classification system or go ahead and modernize the existing classification system.
- ◆ Proceed with reclasses for employees with additional skills and duties even in absence of budget concurrent with the retooling of the existing system.
- ◆ Regardless of whether career banding is further implemented, there are too many classifications and they need to be reexamined.

## STATE OF NORTH CAROLINA Focus Group Findings

### UNIVERSITY/AGENCY HUMAN RESOURCE DIRECTOR PERCEPTIONS OF STRENGTHS OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### CAREER BANDING

- ◆ Concept is welcomed. It is an important mechanism.
- ◆ For Universities, gives each campus more staffing flexibility to address local labor market conditions in different parts of the State.
- ◆ Universities are willing participants because the system is better than the old system.
- ◆ It is more workable than the current system.



## STATE OF NORTH CAROLINA

### Focus Group Findings

#### UNIVERSITY/AGENCY HUMAN RESOURCE DIRECTOR'S PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

##### CAREER BANDING

- ◆ There is no established statewide compensation philosophy or strategy. Career Banding was to have helped in this area.
- ◆ Authority versus Responsibility. The General Assembly has built the system. The business units have the responsibility to manage the system but little, if any authority, to do so. North Carolina is a "May I" State as each issue is legislatively (statute) driven. It is inefficient and ineffective.
- ◆ Message during roll-out of career banding created unrealistic expectations by employees due to pent up demand. System was presented as opportunity to address market compensation issues but resources were not made available for implementation. Creates serious difficulties for Universities who must compete in a substantially wider labor market although other Agencies also expressed concerns about the State's ability to compete against other public and private sector organizations.

## ***STATE OF NORTH CAROLINA***

### **Focus Group Findings**

- ◆ Given legislative mandates, each employee receives the same amount of increase regardless of performance or skill set in direct conflict with goals of career banding program. Universities and Agencies do not have the authority to use other resources (e.g. salary enhancement fund) to fund the program.

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## STATE OF NORTH CAROLINA

### Focus Group Findings

#### UNIVERSITY/AGENCY HUMAN RESOURCE DIRECTOR'S PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

- ◆ Career Band width is somewhat limiting relative to SPA jobs in comparison to EPA jobs within the universities.
- ◆ If given the option, would have preferred Broad Banding rather than Career Banding.
- ◆ OSP Guidelines are not responsive to the missions of the various agencies and universities. Differing needs to the current system. Resources/building needs are different, as is the recruiting market for the various institutions and agencies.
- ◆ Same jobs are treated differently depending on funding source (grant/Federal/State/Self-Funded.)
- ◆ General Assembly budgets at minimum for new positions, not market rate. OSP still micro-manages.
- ◆ There is an assumption by the General Assembly that vacancies are discretionary when many are simply hard to fill positions.

## *STATE OF NORTH CAROLINA*

### Focus Group Findings

- ◆ Marketing of program was not managed well. It “seeped out” so it was not well understood from the beginning. “Overpromised” and “Underdelivered”.)

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## *STATE OF NORTH CAROLINA*

### Focus Group Findings

#### UNIVERSITY/AGENCY HUMAN RESOURCE DIRECTOR'S PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

- ◆ Implementation has created morale problems. Best employees have options other than the State or the Universities.
- ◆ Frozen into managing two systems for SPA personnel given legislative actions. Makes administration extremely cumbersome and creates conflicts within the organization.

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## STATE OF NORTH CAROLINA

### Focus Group Findings

#### UNIVERSITY/AGENCY HUMAN RESOURCE DIRECTOR PERCEPTIONS OF CHANGES OF THE OFFICE OF STATE PERSONNEL SYSTEM

##### CAREER BANDING

- ◆ Allow agencies to budget at a higher rate than the minimum (e.g. market median rates).
- ◆ General Assembly should adopt a statewide compensation philosophy or allow each Agency/University to set. This issue has not even been addressed.
- ◆ Pace of work at OSP not consistent with Agency or University needs. Some market data is out of date by the time it is needed.
- ◆ Vacant positions exist for various reasons including the fact that many are simply hard to fill. Vacant positions should not be “taken” by the General Assembly since those resources are critical for funding the program.

## *STATE OF NORTH CAROLINA*

### Focus Group Findings

- ◆ Internal oversight process is based on a traditional classification and compensation model and not a career banding model. Result is pressure to make the career banding model work like the old traditional system. Results in gamesmanship.

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## STATE OF NORTH CAROLINA Focus Group Findings

### UNIVERSITY/AGENCY HUMAN RESOURCE DIRECTOR PERCEPTIONS OF STRENGTHS OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### TRAINING

- ◆ Training is an investment. Should be designed to take a longer-term view.
- ◆ OSP's Certified Public Manager training program is good and well structured.
- ◆ Training required for maintenance of mandatory licenses/credentials is generally available.
- ◆ Most of the Universities and some of the larger State agencies offer tailored, in-house, training to supervisors and managers. Larger institutions/agencies have greater opportunity than smaller institutions.



## STATE OF NORTH CAROLINA Focus Group Findings

### UNIVERSITY/AGENCY HUMAN RESOURCE DIRECTOR PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### TRAINING

- ◆ Certified Public Manager training program is not adequately funded to cover all managers in the State. Only about 20% of managers have been able to get the necessary training due to the limitation on the number of available slots and self-nomination process. Budget cutbacks have diminished the amount of available supervisory and management training.
- ◆ Each University is creating and funding its own training programs (creating their own catalogue of courses.) Penchant of the General Assembly is to deal with tactical issues and not strategic issues (e.g. every manager must undergo three days of EEO training.) Most other State agencies do not provide have this flexibility
- ◆ Lack of training opportunities demonstrates a lack of commitment to the employee population.
- ◆ Most currently mandated training is related to compliance and is one-shot (EEO training, Workplace violence, Unlawful harassment, ethics.)

## *STATE OF NORTH CAROLINA*

### Focus Group Findings

- ◆ The State culture does not support the development of its employees.
- ◆ OSP provided training is not sufficient to cover all areas of need.

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## **STATE OF NORTH CAROLINA**

### **Focus Group Findings**

#### **UNIVERSITY/AGENCY HUMAN RESOURCE DIRECTOR PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM**

- ◆ Training does not add to the talent of the employees for what is needed in the job. It cannot make up for lack of general skills and capabilities of the employees at hire.
- ◆ Succession planning is not practiced. This is especially critical when someone retires. There is no opportunity to hire a replacement that can be trained by the retiree.
- ◆ Most of the training that is provided by the State relates to rules compliance. Very little effort is made in the area of employee development.
- ◆ Leadership training is needed but to get it, they have to partner with a community college. Universities should have access to the curriculum (e.g. Life Institute for Female Employees).
- ◆ State has not defined whether employees should receive supervisory/management training before or after they have been appointed to position. As a result, employees are often unprepared for their new role and then resources are not available after appointment to teach them the necessary skills to properly do the job. Universities provide greater opportunities than are available to State agency personnel.

## STATE OF NORTH CAROLINA Focus Group Findings

### UNIVERSITY/AGENCY HUMAN RESOURCE DIRECTOR PERCEPTIONS OF STRENGTHS OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### RECRUITMENT

- ◆ Recruitment is tailored to each position and agency.
- ◆ There are fewer restrictions on recruitment than in other areas. Procedures are well defined.
- ◆ OSP reviews at the end of the stage to assure fairness.

# STATE OF NORTH CAROLINA

## Focus Group Findings

### UNIVERSITY/AGENCY HUMAN RESOURCE DIRECTOR PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### RECRUITMENT

- ◆ No real system or University/Statewide recruitment strategy. Each campus or agency identifies people and then fights to get them.
- ◆ Passive system. Applicant driven. Recruitment of candidates is not a normal practice except for specialized positions. Recruitment is reactive unless position is at higher level.
- ◆ Difficulty in filling professional positions. Salary levels are at least 10-15% or more below competitive market.
- ◆ Geographical pay differentials would allow campuses/agencies to recruit employees in higher cost areas.
- ◆ Don't have the flexibility to offer flex scheduling, part time work, bonuses, career advancement or leave incentives that others can offer, so the universities and agencies are at a disadvantage compared to other employers who can.

## *STATE OF NORTH CAROLINA*

### Focus Group Findings

- ◆ Candidates identified by one campus or agency but not selected are not made available to other campuses or agencies resulting in considerable duplication of effort on part of both the State and applicants (no repository for good referrals such as nurses.)

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## STATE OF NORTH CAROLINA

### Focus Group Findings

#### UNIVERSITY/AGENCY HUMAN RESOURCE DIRECTOR PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

- ◆ Cannot always get best-qualified people into jobs because of internal focus. Outside recruitment is outside of the way the State operates versus the market. Statute says to hire the most qualified but OSP interprets this provision. Hiring manager is not in control.
- ◆ Staffing process and needs are in direct conflict with the State Budget Act (line item by General Assembly rather than aggregate funding for personnel needs.)
- ◆ Recruitment for State is not consistent with the environment today (shrinking pool of skilled applicants in an expanding market of job opportunities.)
- ◆ Open recruitments require OSP/Commission sign off.
- ◆ Recruitment incentives such as signing bonuses are not available when needed.
- ◆ Compensation levels limit ability to recruit top candidates, especially at management and executive levels. In some cases, department heads make less than subordinates impeding recruitment.

## *STATE OF NORTH CAROLINA*

### Focus Group Findings

- ◆ Unable to make retention offer to an employee when another State agency or University is being considered by an employee.

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# STATE OF NORTH CAROLINA

## Focus Group Findings

### UNIVERSITY/AGENCY HUMAN RESOURCE DIRECTOR PERCEPTIONS OF CHANGES TO THE OFFICE OF STATE PERSONNEL SYSTEM

#### RECRUITMENT

- ◆ OSP role needs to be more strategic rather than a gatekeeper.

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# STATE OF NORTH CAROLINA

## Focus Group Findings

### UNIVERSITY/AGENCY HUMAN RESOURCE DIRECTOR PERCEPTIONS OF STRENGTHS OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### TERMINATION

- ◆ Mediation system is working fairly well.
- ◆ Probationary period for new employees is generally effective.

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# STATE OF NORTH CAROLINA

## Focus Group Findings

### UNIVERSITY/AGENCY HUMAN RESOURCE DIRECTOR PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### TERMINATION

- ◆ Making terminations stick because of extensive appeals process is problematic. Mediation should be mandatory before outside appeals are allowed.
- ◆ Process takes too much time and is too complex. Two of the six appeals steps should be eliminated.

# STATE OF NORTH CAROLINA

## Focus Group Findings

### UNIVERSITY/AGENCY HUMAN RESOURCE DIRECTOR PERCEPTIONS OF STRENGTHS OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### APPEALS

- ◆ Mediation system is working fairly well.
- ◆ Employee based process (six levels of appeal).

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# STATE OF NORTH CAROLINA

## Focus Group Findings

### UNIVERSITY/AGENCY HUMAN RESOURCE DIRECTOR PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### APPEALS

- ◆ Mediation is not used as extensively as it could be resulting in prolonged appeals process. Should be mandatory.
- ◆ There is a policy conflict – Employees who disagree with written information can claim it is false and misleading in order to utilize outside appeals avenues.

# STATE OF NORTH CAROLINA

## Focus Group Findings

### UNIVERSITY/AGENCY HUMAN RESOURCE DIRECTOR PERCEPTIONS OF CHANGES TO THE OFFICE OF STATE PERSONNEL SYSTEM

#### APPEALS

- ◆ Eliminate the Office of Administrative Hearings in the process.
- ◆ Should institute an accelerated appeals process.
- ◆ Require mediation.
- ◆ Limit appeals to those who can document why the information is false and misleading.

*STATE OF NORTH CAROLINA*  
Focus Group Findings

UNIVERSITY/AGENCY HUMAN RESOURCE DIRECTOR PERCEPTIONS OF STRENGTHS  
OF THE OFFICE OF STATE PERSONNEL SYSTEM

CLASSIFICATION

- ◆ No positive comments were made about the current classification system.

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## STATE OF NORTH CAROLINA Focus Group Findings

### UNIVERSITY/AGENCY HUMAN RESOURCE DIRECTOR PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### CLASSIFICATION

- ◆ Too many job classifications to effectively manage (approximately 6,000 to 8,000 including T-Grade positions.) Most descriptions are out of date.
- ◆ Classification descriptions are out of date and do not reflect current requirements.
- ◆ Too restrictive.
- ◆ OSP is reluctant to create new positions at higher levels.
- ◆ Higher paying jobs are viewed as not necessary.
- ◆ Pay at the bottom of the range is a problem for recruitment.
- ◆ Have not had a pay for performance increase in years because it has not been funded. Even when funded, unable to make rewards at the Director level.



## STATE OF NORTH CAROLINA Focus Group Findings

### UNIVERSITY/AGENCY HUMAN RESOURCE DIRECTOR PERCEPTIONS OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### OTHER

- ◆ Pension system and employee benefits programs are administered independently of the State's personnel system and operate within independent silos. All three programs need to be integrated in order to address total compensation. Parking is a big issue for agencies in Raleigh.
- ◆ Universities that operate their own payroll system can offer optional benefits that are employee funded while other universities and State agencies are unable to make similar offerings.
- ◆ The Universities are different in terms of external labor market than other State agencies. Many jobs are recruited nationally rather than locally. Competitiveness is a major concern. Given the Universities future (focused growth initiatives), need to fill positions is critical.

## *STATE OF NORTH CAROLINA*

### Focus Group Findings

- ◆ Considerable micro-management in other areas such as tele-working. The State Budget Director must approve agreements. Given the diversity of needs, this is unnecessary and unproductive.

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## *STATE OF NORTH CAROLINA*

### Focus Group Findings

#### UNIVERSITY/AGENCY HUMAN RESOURCE DIRECTOR PERCEPTIONS OF THE OFFICE OF STATE PERSONNEL SYSTEM

- ◆ Universities would like to have the same degree of independence and flexibility as the community colleges within the State. Community College employees are not covered by the SPA.

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## STATE OF NORTH CAROLINA Focus Group Findings

### EMPLOYEES PERCEPTIONS OF STRENGTHS OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### CAREER BANDING

- ◆ Career banding recognizes performance whereas the prior/existing process is “stagnant”.
- ◆ Career banding created a morale boost somewhat mitigated by the lack of follow-up funding and continued roll-out.
- ◆ Career banding provides skill-based salary recognition.
- ◆ Career banding provides greater flexibility to access training-perception of greater rewards for new learning.
- ◆ Provides greater latitude for pay. Will not top out (salary range maximum) as quickly.

## STATE OF NORTH CAROLINA Focus Group Findings

### EMPLOYEES' PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### CAREER BANDING

- ◆ Career banding transition from the current classes has been confusing and labor intensive.
- ◆ Only a limited number of occupational groups were selected for Banding before process was stopped by the General Assembly. This has created inequitable treatment among employees within the same Department.
- ◆ There is a lack of understanding about how and why the crosswalks from the old classes to the new bands were constructed and challenges about where employees were placed within the bands.
- ◆ Concern was expressed about loss of valued class titling otherwise recognized within trades and professions.
- ◆ Because banding was rolled out to such a limited portion of the employee population, there is a perception of duplication of paperwork to address both systems.

## *STATE OF NORTH CAROLINA*

### Focus Group Findings

- ◆ The roll-out of banding created positive expectations not realized due to lack of funding and the hold on further implementation. Pay grades may have increased but no change in individual employee pay.

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## STATE OF NORTH CAROLINA Focus Group Findings

### EMPLOYEES' PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

- ◆ There is a perception within certain Departments that “favoritism” could skew ratings.
- ◆ Some jobs are open for a long period of time. Result is extensive use of temporary workers in order to keep positions filled.
- ◆ There is a lack of understanding about the guidelines for progressing through the levels within the bands and concern that employees could be “trapped” within one of the levels.

## STATE OF NORTH CAROLINA Focus Group Findings

### EMPLOYEES' PERCEPTIONS OF CHANGES OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### CAREER BANDING

- ◆ Provide the funding to fully implement the banding that has been rolled-out.
- ◆ Proceed with banding (and funding for banding) across the board to provide standardization and a level playing field for all employees.
- ◆ Create better standardized guidelines for use by all to eliminate much of the confusion.



## STATE OF NORTH CAROLINA Focus Group Findings

### EMPLOYEEES' PERCEPTIONS OF STRENGTHS OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### TRAINING

- ◆ University employees perceive training to be very good and available with time off to access training provided given a positive training culture.
- ◆ Forestry employees echoed the positive training culture comment and the excellence of the training provided.
- ◆ Mandatory training is available.
- ◆ Training opportunity is a plus for recruiting but it is perceived that the State serves as the training ground for the private sector for many vocations.
- ◆ Appreciation was expressed for agencies with OJT mentoring programs in addition to the formal training opportunities.

# STATE OF NORTH CAROLINA

## Focus Group Findings

### EMPLOYEES' PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### TRAINING

- ◆ There are not sufficient funds allocated and/or funded for training.
- ◆ Outside of the universities, public safety and forestry, there is a perception that training is not important and time off work to take training is not made available.
- ◆ Other than courses offered through the Certified Public Manager program and courses offered by the Universities, there does not appear to be any mechanism to assess the effectiveness of the course or to reinforce the knowledge that is being taught.
- ◆ Many agencies do not promote training. When it is available, there are often difficulties getting the time needed to participate in the program(s).
- ◆ Although internet-based training is somewhat available, people do not take the initiative due to a perception that self-initiated training will result in additional assignment of responsibilities without accompanying compensation.

## STATE OF NORTH CAROLINA Focus Group Findings

### EMPLOYEES' PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

- ◆ Considerable concern was expressed, particularly related to jobs where employees were at risk from custodial populations such as prisons, mental health facilities, and probation that initial and annual training is not sufficient to ensure personal safety. (Police were viewed to have much more adequate physical requirements and training.) The context for the concern includes the lack of physical and fitness requirements for employees and the lack of confidence in under-trained fellow employees to “watch their back” when moving and servicing dangerous detainees.
- ◆ It is perceived that training beyond minimum requirements is reserved for a very few with seniority.
- ◆ Agency HR personnel are not pro-active regarding training. They have little authority or accountability to ensure that agency personnel are adequately trained.

## STATE OF NORTH CAROLINA

### Focus Group Findings

#### EMPLOYEES' PERCEPTIONS OF CHANGES OF THE OFFICE OF STATE PERSONNEL SYSTEM

##### TRAINING

- ◆ Provide additional budget for training and reward supervisors who institute a “training culture” where appropriate time off is provided and acquisition of learning is rewarded.
- ◆ Increase the distance learning options particularly for the rural employees who cannot travel often to Raleigh for training opportunities.
- ◆ Provide, at a minimum, the training opportunities and budget to maintain and achieve required licenses and certifications.
- ◆ For high risk jobs where personal safety is at risk, provide additional and more frequent personal protection training.

## STATE OF NORTH CAROLINA Focus Group Findings

### EMPLOYEES' PERCEPTIONS OF STRENGTHS OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### RECRUITMENT

- ◆ Security of employment is perceived as the greatest recruiting benefit with pension/health benefits following.
- ◆ Career banding, where available, is a plus in creating larger pools of applicants due to wide advertised range of potential salary.
- ◆ Some agencies (universities, libraries, police, and forestry) attract applicants due to the “ambience” of the work environment.
- ◆ In the rural areas, it is perceived that the proximity to work given gas prices attracts applicants who might not otherwise be interested given salary considerations.

# STATE OF NORTH CAROLINA

## Focus Group Findings

### EMPLOYEES' PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### RECRUITMENT

- ◆ The State used to be an employer of choice. Salary is no longer competitive with other public agencies or the private sector resulting in too few qualified applicants for openings.
- ◆ Qualified applicants are lost often due to the length of the recruitment/hiring process. It is perceived that impending vacancies cannot be posted until the incumbent is fully paid out and then the layers of approvals once selections are made result in a lag of six months or more.
- ◆ To get around the lengthy recruitment process and the budget constraints, alternative procedures such as temporary hires and grant-funded hires alleviate workloads but create high turnover and morale as such folks either leave or access other permanent jobs within the State system.

## *STATE OF NORTH CAROLINA*

### Focus Group Findings

- ◆ The perception is that an excessive number of under-qualified internal applicants participate in each recruitment since additional salary is, for the most part, only available if employees apply for new job classes.

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## STATE OF NORTH CAROLINA Focus Group Findings

### EMPLOYEES' PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

- ◆ There is a feeling that the State benefits need better marketing and that the applicant pool might be larger if there was an understanding in the marketplace of the value of the benefits on top of the salary offered and if an effort were made to elevate the public view of the prestige of working for the State.
- ◆ For some professions, the broader career band pay ranges advertised attract applicants who feel that it is “bait and switch” since there is no budget to hire at other than the entry level and there is no recent history of movement within the pay bands.
- ◆ There is a belief that, particularly given career banding and the shortage of applicants in many areas, recruitments can result in new hires with more compensation than the “lifers” without attention to equity.
- ◆ Concern was expressed that the merit review of applicants often results in the referral to hiring authorities of the least qualified rather than the most qualified applicants. The perception is that the HR reviewers don't understand the job requirements and/or the applicants for interview are deliberately structured to result in a “political” hire. Employees expressed a desire to increase the quality of personnel selected.



## STATE OF NORTH CAROLINA Focus Group Findings

### EMPLOYEES' PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

- ◆ Perception is that many recruitments are deliberately delayed to “save money” at the expense of overworking the employees left and creating even more turnover. These factors, along with the long length of the recruiting process under normal circumstances, were cited as factors related to losing vacant positions.

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## STATE OF NORTH CAROLINA

### Focus Group Findings

#### EMPLOYEES' PERCEPTIONS OF CHANGES TO THE OFFICE OF STATE PERSONNEL SYSTEM

##### RECRUITMENT

- ◆ The recruitment and hiring process should be made more efficient to avoid losing applicants who cannot/will not wait the extended period currently needed to become a State employee.
- ◆ Acquire budget to recruit at a market-competitive salary and advertise realistic hiring ranges.
- ◆ Engage with the media and other marketing techniques to raise the public perception of State employment including the comparison of benefits to the private sector.

## STATE OF NORTH CAROLINA Focus Group Findings

### EMPLOYEES' PERCEPTIONS OF STRENGTHS OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### TERMINATION

- ◆ Many feel that termination policy is well communicated and understood.
- ◆ The perception is that supervisors who do a good job of documentation and follow the prescribed procedures can deal with most clearly dysfunctional employees.

# STATE OF NORTH CAROLINA

## Focus Group Findings

### EMPLOYEES' PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### TERMINATION

- ◆ The documentation process is too long to accomplish in some cases and leaves dysfunctional employees in place for extended periods impacting morale.
- ◆ When supervisors do not want to undertake the labor-intensive documentation process, good recommendations and transfers for dysfunctional employees results.
- ◆ While certain infractions are well-understood as deserving of discipline/termination, there are no standards for dealing with the employee who “sleeps on the job” rather than contributing to the work process effectively. The perception is that you can’t get rid of people who are “just getting by” – a problem enhanced by the lack of merit pay to differentiate between strong and poor performers.
- ◆ Comments were made regarding inappropriate process such as the firing of someone by email and the lack of performance management training mandatory for supervisors.

## STATE OF NORTH CAROLINA Focus Group Findings

### EMPLOYEES' PERCEPTIONS OF CHANGES TO THE OFFICE OF STATE PERSONNEL SYSTEM

#### TERMINATION

- ◆ Create consequences for supervisors who “pass around” dysfunctional employees rather than undertaking the termination documentation.
- ◆ Consider alternatives to retaining low-performing and unqualified personnel based on the expectation of legal process and/or the perception of lack of other applicants. The feeling is that the current atmosphere promotes low morale and the negative public perception of State employees.

# STATE OF NORTH CAROLINA

## Focus Group Findings

### EMPLOYEES' PERCEPTIONS OF STRENGTHS OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### APPEALS

- ◆ Employees know where to go to understand their appeal and grievance rights.
- ◆ The perception is that HR provides sufficient guidance to execute the process.

## STATE OF NORTH CAROLINA Focus Group Findings

### EMPLOYEES' PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### APPEALS

- ◆ Perception is that if you grieve or appeal, you are “marked”.
- ◆ The belief is that effective appeals for the employee require legal support at expense beyond the means of many employees.
- ◆ The lack of training/understanding of performance management results in employees filing grievances for receipt of less than outstanding ratings for meeting the minimum requirements of their jobs.
- ◆ There is a perception that the “internal investigation” label prohibits obtaining counseling and advice regarding grievances during a relevant time period.

## STATE OF NORTH CAROLINA

### Focus Group Findings

#### EMPLOYEES' PERCEPTIONS OF CHANGES TO THE OFFICE OF STATE PERSONNEL SYSTEM

##### APPEALS

- ◆ There may be fewer appeals if substandard and/or misbehaving employees were counseled and given an opportunity to resign gracefully.
- ◆ More adequate and/or frequent performance management training might increase awareness about the use of “good” rather than “outstanding” ratings for minimally compliant employees and reduce the frequency of grievances.



## STATE OF NORTH CAROLINA Focus Group Findings

### EMPLOYEES' PERCEPTIONS OF STRENGTHS OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### CLASSIFICATION

- ◆ Employees understand their classification and in many cases, appreciate the job titling associated.
- ◆ Although uncertain, a general positive feeling was expressed about moving from the current classification system to that of career banding.

## STATE OF NORTH CAROLINA Focus Group Findings

### EMPLOYEES' PERCEPTIONS OF WEAKNESSES OF THE OFFICE OF STATE PERSONNEL SYSTEM

#### CLASSIFICATION

- ◆ Many feel the current classification system is “archaic” and does not adequately reflect the nature of jobs today versus historically.
- ◆ There is frustration that reclasses are hard to come by given the expected transition to career banding, which is now on hold. As a result, employees with new/additional duties are performing without either appropriate compensation or class recognition.
- ◆ There is a perception that there are too many classes and that overlap occurs.
- ◆ Classification is perceived as somewhat meaningless since there is no budget to recognize differentiation in either performance or modifications in work process or skills.

## STATE OF NORTH CAROLINA Focus Group Findings

### EMPLOYEES' PERCEPTIONS OF CHANGES TO THE OFFICE OF STATE PERSONNEL SYSTEM

#### CLASSIFICATION

- ◆ Either roll-out career banding across the board and replace the classification system or go ahead and modernize the existing classification system.
- ◆ Proceed with reclasses for additional skills and duties even in absence of budget for related compensation to increase morale and create a basis for future compensation.