



Secretary of State Audit Report

Oregon University System: Review of Payroll Increases

Summary

Purpose

The objective of our audit was to determine if pay increases granted by the Oregon University System were in compliance with the legislative intent of the 2003-05 statewide pay-freeze.

Background

During early 2003 the state of Oregon found itself in the midst of a budget crisis. In response, Governor Ted Kulongoski's January budget proposal for 2003-05 included a pay freeze for state employees. The budget adopted by the legislature included a freeze effective for most state employees on July 1, 2003. While a part of Oregon state government, the Oregon University System has the authority to operate more independently than most state departments. The university system's budget, however, included the following note first proposed on May 27, 2003 to the Joint Committee on Ways and Means Education Subcommittee. The note was adopted on May 30, 2003 by the committee on a vote of five to nothing.

"The adopted budget does not support any increases in salaries, wages, or benefits for the employees of the Department during the 2003-05 biennium, and the Committee expects no such increases to be awarded."

Results in Brief

We analyzed Oregon University System payroll records from all of the campuses and found that some employees had received pay increases beginning after June 30, 2003. We followed up on a sample of increases granted at the University of Oregon and Oregon State University. Many of the increases were the result of a collective bargaining agreement that delayed the pay freeze implementation for classified staff until September 16, 2003.

However, we identified 126 instances of raises that we considered questionable. These were considered questionable because they did not conform to the intent of the legislature as expressed to the university system in its May 27, 2003 budget hearings

with the Joint Committee on Ways and Means Education Subcommittee. It appears there were no additional hearings that considered exempting the university system from the pay freeze after the May hearings. The text of the budget note passed in May by the committee was included unchanged in the final Oregon University System portion of the state budget signed by the Governor on August 29, 2003.

In sum, we identified approximately \$810,000 in increased costs for the biennium as a result of questionable raises. Further, these raises will continue to increase payroll costs in future biennia. We were unable to project the costs to the entire population because we found payroll system coding was inconsistent within and among the various campuses.

We also identified instances when documentation of personnel actions did not meet best practice guidelines.

Agency's Response

The Oregon University System generally disagrees with the audit findings and believes that the system has complied with the Legislative Budget Note regarding the salary freeze. The salary increases in question were granted or obligated prior to July 1, 2003 as a result of normal business practices, contractual obligations, and existing policies.

We respectfully disagree that the salary freeze became effective on the date that the Joint Legislative Ways and Means Education Sub-Committee approved the Budget Note regarding a salary freeze, May 27, 2003. The Budget Note, enacted in August, applied to salary increases during the 2003-2005 biennium and thus became effective the first day of the biennium, July 1, 2003.

The system agrees that documentation of personnel actions reviewed in the audit did not always meet best practice guidelines and has taken action to improve documentation.

Introduction

In February 2004, the Audits Division received an allegation the Oregon University System had made inappropriate use of the reclassification process to increase employee pay in order to evade the statewide pay freeze. The university system Internal Auditor investigated, concluding the allegation was not justified. The Audits Division reviewed the internal auditor's report and agreed with the conclusions reached. However, during the course of that review, we performed additional procedures and noted other pay increases were occurring. The objective of this audit was to determine if pay raises granted by the university system were in compliance with the legislative intent of the 2003-05 statewide pay-freeze.

Pay Freeze Adopted In Response to the Budget Crisis

Governor Ted Kulongoski took office in 2003 in the midst of a statewide budget crisis. As part of his response to this crisis, his January 10, 2003 budget message called for a pay freeze for state employees for the coming two year budget period. This freeze was adopted and most state employees' wages were frozen as of July 1, 2003.

The university system is allowed to operate with a great deal of independence. The university system has the authority to determine pay for its employees. The budget, however, must be approved by the legislature.

During the 2003 legislative session, the university system was instructed to freeze salaries in a legislative budget note. The note states, "The adopted budget does not support any increases in salaries, wages, or benefits for the employees of the Department during the 2003-05 biennium, and the Committee expects no such increases to be awarded."

The university system is governed by the Board of Higher Education (Board), which has delegated daily operations to the University Chancellor.

Audit Results

Through analysis of the university system payroll records and onsite review of supporting documentation, we identified raises which were questionable. Our review was limited to the University of Oregon (UO) and Oregon State University (OSU) campuses. For the two universities the total cost of questionable raises we identified will be approximately \$810,000 for the biennium. Of this amount we questioned approximately \$660,000 at UO and \$150,000 at OSU.

Legislative Intent Key to Implementation

While the Oregon University System had hoped to be exempted from the pay freeze, it was clear during the May 27, 2003 budget hearings that the Joint Committee on Ways and Means Education Subcommittee, intended to include the university system in the freeze. It appears there were no additional hearings that considered ex-

empting the university system from the pay freeze after the May hearings. The text of the budget note passed in May by the committee on a vote of five to nothing was included unchanged in the final Oregon University System portion of the state budget signed by the Governor on August 29, 2003. Figure 1 illustrates the significant events in the pay freeze implementation timeline.

Implementation Date Differs Depending on Employee Class

The university system has different classes of employees including classified, unclassified, and temporaries. Our review involved primarily unclassified and classified staff.

Unclassified staff have individual contracts with the university beginning July 1 or for faculty with nine-month contracts, on September 16. The pay freeze implementation date for unclassified staff was July 1, 2003. According to guidance provided at OSU the freeze

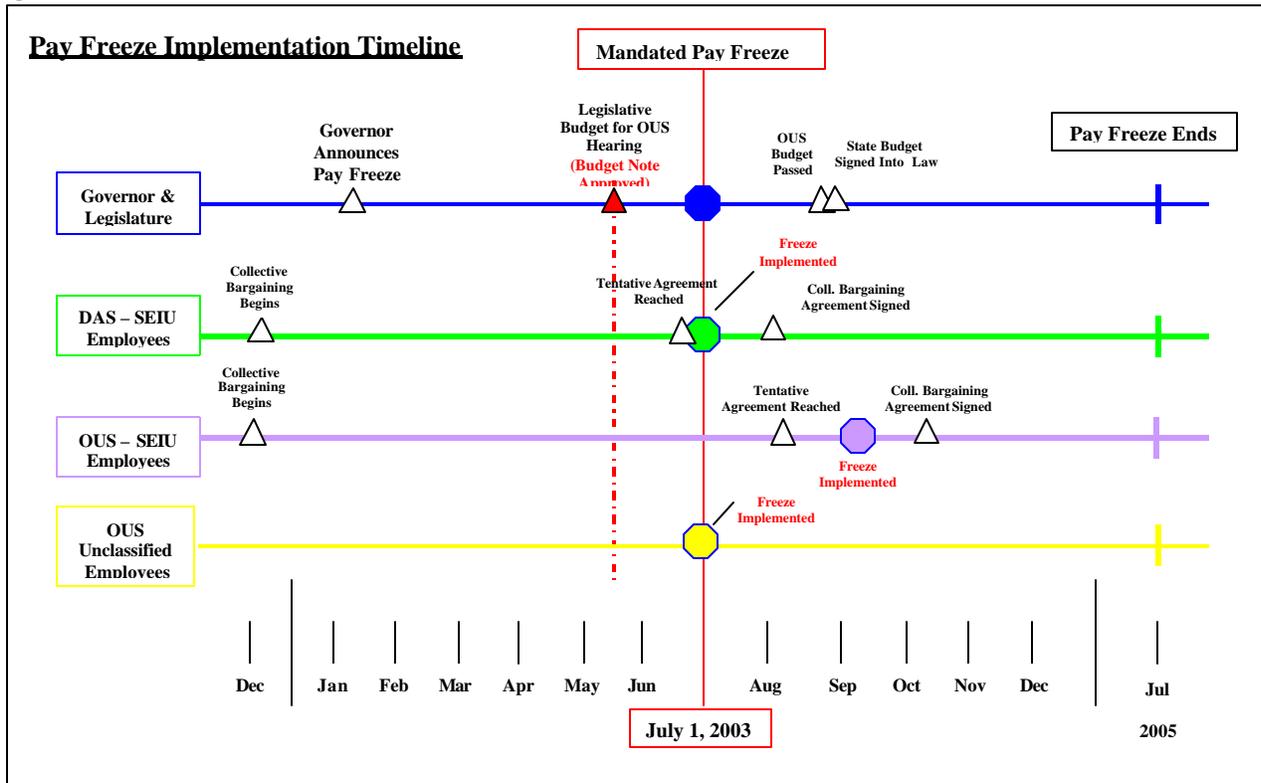
was applicable to salary paid on all fund types, including grants, contracts and other funds. We concluded raises for unclassified staff approved after introduction of the budget note on May 27 may have been legal but were contrary to legislative intent as expressed by the Joint Committee on Ways and Means Education Subcommittee. We identified these raises as questionable unless they belonged to a recognized class of exceptions.

For classified staff under union contracts, annual merit increases were suspended as of September 16, 2003. We concluded raises other than annual merit increases granted beginning July 1, 2003 would be considered questionable unless they belonged to a recognized class of exceptions.

Recognized exceptions include raises given because of promotions or reclassifications. Reclassification is a term used to justify change to a classified staff position involving a change in the level of

Audit Results

Figure 1.



Following are brief explanations of the events depicted in Figure 1.

- **January 10, 2003:** The governor proposed a pay freeze for state employees in his budget message.
- **January 13, 2003:** Legislature convened.
- **December 2002:** Negotiating/bargaining began between unions representing state employees and the state. The largest bargaining unit for state employees (SEIU) has separate contracts with Department of Administrative Services and the university system. Separate negotiations were ongoing beginning in December 2002.
- **May 27–30, 2003:** Oregon University System budget hearings were held by the Legislature’s Joint Committee on Ways and Means, Education Sub-Committee. Officials from the system presented testimony during the hearings. Included in the material provided to the committee members was the text of the budget note proposed by the Legislative Fiscal Office and adopted by the committee on May 30, 2003 on a vote of five to nothing.
- **June 29, 2003:** DAS and SEIU reached tentative agreement on a contract.
- **June 30, 2003:** Most union contracts with the state expired.
- **July 1, 2003:**
 - * Pay Freeze went into effect for most state employees.
 - * Pay freeze went into effect for OUS unclassified staff.
 - * OUS classified staff continued to operate under the terms of the expired contract because no new agreement had been reached.
- **August 15, 2003:** DAS contract with SEIU was signed.
- **August 21, 2003:** OUS and SEIU reached tentative agreement on a contract.
- **August 26, 2003:** Legislature passed omnibus budget bill 5077, which included OUS budget.
- **August 29, 2003:** Final state budget signed by Governor.
- **September 16, 2003:** Pay freeze went into effect for OUS SEIU staff.
- **October 20, 2003:** OUS contract with SEIU was signed.

Audit Results (continued)

responsibility. While terminology differs, the justification necessary to make such a change should be the same for classified and unclassified staff. For example, the Department of Administrative Services has issued just one policy on the subject.¹ Further, a prior written contractual obligation would create an exception.

We identified instances in which raises given did not appear to meet exemption standards or comply with implementation dates.

System-Wide Instances of Raises Noted

We identified approximately \$735,000 in questionable increases for the 2003-05 biennium that appeared to be the result of actions within certain departments by university administrators. These included \$630,000 at UO and \$105,000 at OSU. Further, these raises will continue to increase payroll costs in future biennia.

Departments Gave Questionable Increases Totaling Approximately \$600,000

Several UO and OSU departments and colleges gave faculty and staff not covered by union contracts merit based increases with an estimated cost of almost \$495,000 at the UO and \$105,000 at OSU for the 2003-05 biennium. Most of these raises were effective after the July 1, 2003 pay freeze implementation date although, in one case at OSU, the raises were made retroactive to June 1, 2003. While university officials told us these raises were the result of normal university processes, the universities should have been aware of the impending pay freeze and its effective date. In our opinion these raises were contrary to the legislative intent of the pay freeze as expressed by the Joint

¹ DAS HR Policy 30.000.01 Position Management.

Committee on Ways and Means Education SubCommittee and therefore questionable.

Figure 2 shows the timing of these raises in relation to the adoption of the budget note and implementation of the pay freeze. The circumstances for these raises are discussed in the following paragraphs.

The UO's process for giving faculty increases begins in the winter. The first step involves comparing faculty salaries to those in comparable institutions. Faculty whose salaries fall below a certain threshold are eligible to receive salary increases dependent on an evaluation of their job performance. The process takes several months. Faculty members are typically on nine-month contracts running from September 16 through the following June 15.

Thirteen departments in one college at the UO granted increases with an estimated cost of almost \$400,000 for the 2003-05 biennium to 70 faculty members. These pay increases were effective September 16, 2003. Handwritten, initialed notes on lists indicated these raises were approved May 28 and were "Previously planned and regularly scheduled merit." See Line A in Figure 2.

Two other colleges at the UO gave merit and equity salary adjustments to their staffs totaling almost \$95,000 for the two-year period. In one case, the increases for 13 staff were approved on June 13 for implementation either on July 1 for those on one year contracts or September 16 for those on nine-month contracts. The notation was "Approved as regularly scheduled merit increases." See Line B in Figure 2. In the other case, documentation of raises granted to four staff members was evidenced by a memo dated June 24, 2003. While one of the staff members had signed her annual contract on May 30, this still fell into the time period we are calling questionable. See Line C in Figure 2.

At OSU, 11 faculty members in one college were granted retroactive increases at an estimated cost of approximately \$105,000 for the 2003-05 biennium. In this case, the faculty members were granted pay increases documented in a memo dated June 30, 2003. The raises were effective retroactively on June 1, 2003. The Dean approved these increases, stating, "Tenure and tenure track faculty salary increase requests are based on merit and equity concerns." See Line D in Figure 2.

Agency's Response

The increases were granted to the eleven OSU faculty members under the university's promotion and tenure review process, completed in early May of each year. The increases at UO were approved prior to July 1, 2003 and were consistent with the law and existing policies at the time they were approved. Furthermore, they were necessary to meet previous obligations to employees. These processes began early in 2003 and were completed prior to the effective date of the salary freeze.

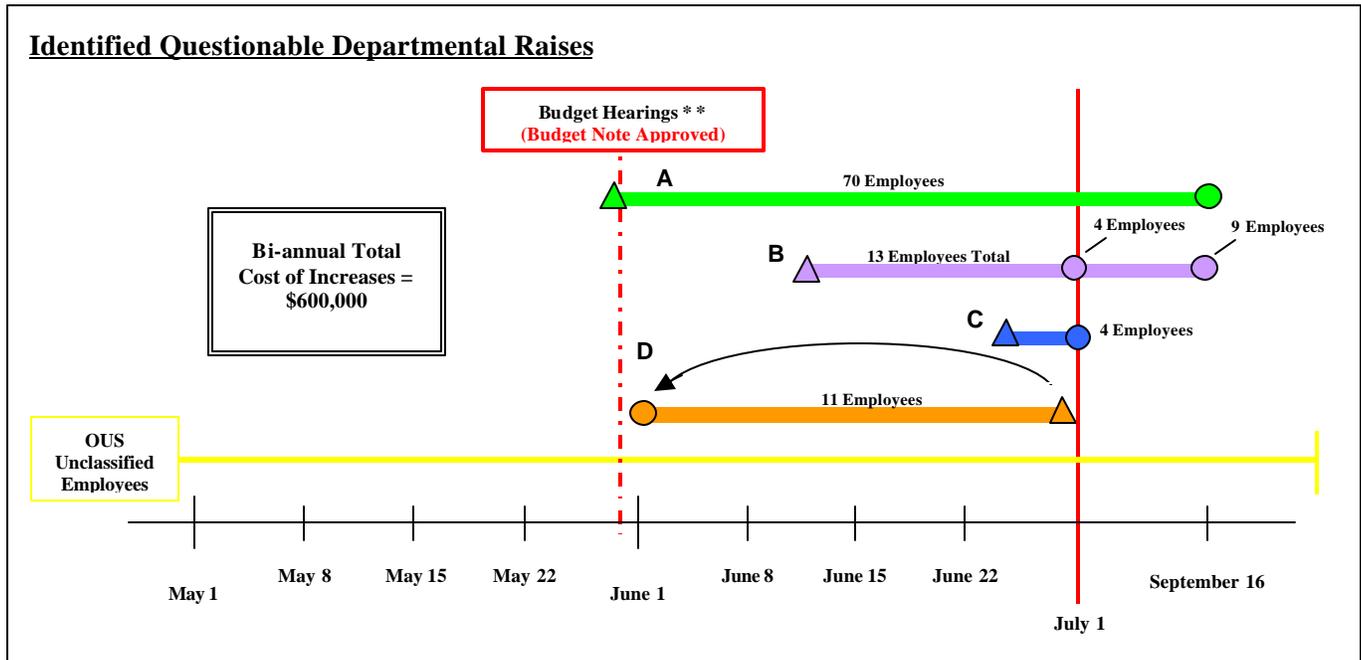
Additional Departmental Questionable Increases Identified

Analytical review identified additional increases at UO costing approximately \$135,000 for two years which may be questionable. Although we did not review documentation of these raises, it appeared one campus organization had granted increases to 10 staff members at a cost of approximately \$80,000. The same analysis identified an additional seven staff in four other campus organizations matching the same pattern. The cost for these other staff was estimated at \$55,000.

Documentation provided by the UO indicates these are research positions funded by various grants. It was not clear to us that in all cases these grant awards required pay increases be given although funding for increases was available through the grants.

Audit Results (continued)

Figure 2.



△ = Approval Date ○ = Effective Date

** Ways and Means Joint Sub Committee on Education May 27-30, 2003

* See "System Wide Instances of Raises Noted" on page 4 for discussion of each line.

Agency's Response

The UO increases reflect commitments made prior to the effective date of the salary freeze to personnel who were essential to meeting the obligations of the ongoing grant support. These raises were either approved prior to July 1, 2003; granted as a promotion; required pay increases under the terms of the grant; or given to staff in positions funded exclusively on grants. As a result of awarding these increases, the UO received additional outside funds from the granting entities.

Individual Instances of Raises Also Identified

We also identified 11 individual instances when raises given appeared contrary to the intent of the pay freeze. The cost of those we identified totaled \$76,000 for the freeze period, \$47,000 at OSU and \$29,000 at UO. These individ-

ual instances were identified from among the 73 items selected for review. Seven of these are described in more detail below.

Extra Meritorious Increases Given

Four of the 73 items were special merit increases given to classified staff after July 1, 2003 at a total two year cost of about \$10,000. Three of these were given at OSU and one at UO. These extra meritorious increases are step raises given in addition to regularly scheduled merit increases to recognize exemplary work. The University continued to operate under the old union contract in the absence of a new contract; however, there is no mention of extra meritorious raises in either contract. These increases are optional increases given at the discretion of the university. Guidance provided by the Department of Administrative Services

(DAS) indicated that with "no exceptions" special merit increases were not allowed during the pay freeze.

Agency's Response

The extra meritorious increases granted to classified employees were given before the effective date of the salary freeze for OUS classified employees. These increases are consistent with a pay practice that has been in effect for many years. Discontinuing this past practice prior to the classified employee salary freeze effective date, September 16, 2003, would have violated the past practices provision of the collective bargaining agreement.

Raises Given Without Justification of Increased Responsibility

Two of the 73 items were to unclassified staff in one OSU department at a cost of \$36,000. These did not appear to be justified as "reclassification" increases. Reclassification is a term used

Audit Results (continued)

when there is an evolution of duties for a position that reflects a change in the overall level or type of position responsibility. Guidance states, "Position reclassification is based on a higher level of responsibility not just an increase in duties." While the term refers specifically to classified staff, our research indicates position changes for unclassified staff should be based on similar criteria.

OSU recently merged two departments. The department requested and received approval for salary increases for unclassified staff that appeared to be justified primarily because of increased duties. In one case, a salary increase of 21 percent was justified stating:

"As such she is doubling the liaison work, the donation requests and thank you notes and the necessary alumni contact. The events she creates and coordinates have doubled with the merger and therefore so has the work and planning."

A similar justification was given for a second staff member who received a 13 percent increase. In this instance we were informed there was no need for a new position description because duties did not change only the volume of work changed. The memo requesting these increases was dated July 21, 2003, beyond the pay freeze implementation date.

Agency's Response

The raises granted to these individuals were justified under the salary freeze. OSU provided documentation showing that these increases were not "justified primarily because of increased duties" but due to a substantial increase in responsibilities for each employee. University administration found the assigned duties to be sufficiently higher in level of responsibility and impact on the unit's effectiveness to warrant the salary increases granted.

Retention Raise Appeared Not to Meet Exception Standard

We identified one questionable retention raise granted at a two-year cost of \$12,700. Retention raises are given as an inducement to faculty to remain with the university. We reviewed two of these and concluded one was acceptable and one was questionable. In the first instance, documentation included a letter dated April 23, 2003, promising increases effective in September 2003 and 2004. We viewed this increase as allowable since it was a written obligation made prior to May 27. In the second instance, however, the supporting memorandum was dated October 1, 2003 and referred to an offer turned down in July 2003. An email dated June 2 offered the raise should the faculty member decline the competing offer by August 1. We concluded this raise was questionable.

Agency's Response

This increase was offered and accepted prior to July 1, 2003, and the employee declined an offer from another employer based on this commitment. Implementation of the increase was delayed due to a processing error. This raise was required to meet a legal obligation to the employee.

University Actions Not Consistent with Intent

University officials had discussions and were aware of the impending pay freeze. Faculty merit increase processes continued even after the introduction and passage of the budget note in May 2003 when the intent of the legislature as expressed in the Joint Committee on Ways and Means Education Subcommittee was clear.

University officials told us the pay freeze was discussed at Administrative Council meetings attended by representatives from the campuses. These discussions, however, did not result in a policy decision consistent with legislative intent

as expressed by the Joint Committee on Ways and Means Education Subcommittee. Nor were they in agreement on how a pay freeze would be implemented.

- On June 11, 2003 UO's president reported that interactions with the legislature had not been very productive. In addition, he indicated it was not known how salary increases for merit and retention would be treated.
- OSU's vice president for finance and administration stated that as of June 30 it was clear to him that the university would be subject to the freeze. As a result, he distributed a July 1, 2003 memo to administrators, deans, directors, and department heads outlining how the governor's salary freeze would be implemented at OSU.
- In November 2003, minutes of the Eastern Oregon University Campus Assembly indicate that Eastern's administration had taken the view that "...Merit was not part of the freeze."

Inconsistent Coding Limited Use of Data

As mentioned earlier, we found miscoding issues in the university's system-wide computerized personnel system. Because the data being entered did not necessarily match what was in the personnel files, it was impossible to quantify events, effective dates, and descriptive identification data without file review. Results could not be generalized and the inherent risk of abuse was increased.

As part of our audit we obtained a download of payroll and personnel data for 2003 and 2004 for each of the campuses and the Chancellor's Office. We discovered that coding (1) was not consistently used from campus to campus or from department to department, and

Audit Results (continued)

(2) often did not accurately reflect the personnel actions being recorded.

This could account for an example noted at UO where we identified a like payroll event occurring affecting close to 90 employees. Coding varied for these events from “Merit”, to “Salary Increase-Other”, to “Equity Adjustment” to “Multiple Job Changes.” Of the 15 departments entering this event, six used more than one code for the event.

Agency’s Response

OUS has taken steps to ensure consistent coding of data in the Human Resources Information System. A system-wide software upgrade has been implemented that allows use of more than one code for a salary action and provides more user-friendly access to salary data. Campuses have communicated the importance of proper, consistent coding with their departments. OUS will also consider creating a

separate code indicating “Salary Increase – Exception” for use when there are unique or unusual circumstances, such as a salary freeze.

Personnel File Documentation Not Always Complete

Further, during our file review we noted that documentation maintained in personnel files did not always conform to best practice guidelines. Best practices suggest these files should contain documentation such as employment applications and evaluations. In the case of re-classifications, before and after position descriptions, as well as organization charts, should be included. We reviewed files at OSU, UO, and the Chancellor’s Office. While OSU classified files generally conformed to best practice guidelines, UO’s classified files were less complete. During our review of files at the Chancellor’s Office we found files were missing position descriptions and/or

organization charts. Documentation contained was often either unsigned or only partially signed and sometimes in draft form. While the Chancellor’s Office has reported correcting these deficiencies, at the time of our review the files were unsatisfactory.

We recommend the system improve guidance on uniform coding for computerized personnel systems, and documentation standards for personnel actions.

Agency’s Response

The records referenced in the review have been merged into a central file that will be managed by the Compensation Director. With this change, the responsibility for documentation for these types of actions will shift from the Employment Specialist to the Compensation Director.

The system has taken steps to improve guidance on documentation standards for personnel files.

Objectives, Scope and Methodology

The purpose of this audit was to determine if pay increases granted by the Oregon University System were in compliance with the legislative intent of the 2003-05 statewide pay-freeze.

In order to gain an understanding of the pay freeze implementation for the Oregon University System, we reviewed 2003 Legislative budget committee minutes and Legislative Fiscal Office (LFO) analysis of the adopted budget. We interviewed the system’s LFO analyst, the Governor’s Policy Advisor on Education, and the Governor’s General Counsel. We also interviewed staff from the Chancellor’s Office as well as from both the University of Oregon (UO) and Oregon State University (OSU). Further, we reviewed guidance on implementation from the Department of Administrative Services.

In addition, we reviewed the Collective Bargaining Agreement between the system and SEIU, OPEU, AFL-CIO, and CLC for both 1999-2003 and 2003-05 as well as university system bargaining **Up-dates** dated February 2003 through August 22, 2003.

We researched university system policies and procedures. We reviewed meeting minutes for the Board of Higher Education as well as organizations on some of the campuses. We also researched best practices in personnel practices, most specifically documentation standards and reclassification justifications.

We obtained and analyzed payroll data from the Chancellor’s Office and the seven university campuses for calendar year 2003. From this data we identified individuals on the campuses whose total pay in November 2003 exceeded that re-

ceived in May 2003 by at least 50 dollars. These were considered our population of potential pay increases for review. After reviewing codes for personnel actions that appeared to have occurred during 2003 for these individuals, we selected 73 individuals with increases from UO and OSU for review. During our review we identified 142 additional items at UO and OSU which were part of departmental actions that we included in our review. Further based on our analytical review we identified an additional 17 increases that appeared to be the result of departmental actions.

We obtained and reviewed documentation for these from university system personnel and departmental files. Based on our understanding of the legislature’s intent and the timeline of events, we

Objectives, Scope and Methodology (continued)

identified as questionable, increases that were approved after May 27 usually with implementation dates after June 30 for unclassified staff. Increases that were approved after June 30 were considered questionable except for regularly scheduled merit increases to classified staff for which the freeze implementation date was September 16. For both classified and unclassified staff we recognized certain exceptions such as promotions, reclassifications and the existence of prior written obligations.

During data analysis and confirmed by our file review, we found that coding in the university system wide computerized personnel system was inconsistent within and among the campuses. As a result we were unable to project our findings to the population.

We conducted our fieldwork during the period March 2004 through July 2004. We conducted our work according to generally accepted government auditing standards.



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The courtesies and cooperation extended by the officials and staff of all the agencies audited were commendable and much appreciated.

This report, which is a public record, is intended to promote the best possible management of public resources. Copies may be obtained by mail at:

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