



Judicial Council of California · Administrative Office of the Courts

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REPORT TO THE JUDICIAL COUNCIL

For business meeting on February 26, 2013

Title	Agenda Item Type
AOC Restructuring: Vendor Options for Classification and Compensation Study	Action Required
Rules, Forms, Standards, or Statutes Affected	Effective Date
None	February 26, 2013
Recommended by	Date of Report
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Executive Summary

The Administrative Director of the Courts requests that the Judicial Council select and approve one of three options to perform a review of the classification structure and compensation plan for the Administrative Office of the Courts (AOC). The request is in direct response to Judicial Council Restructuring Directives, directive 19, which states that the Administrative Director must consider “whether an outside entity should conduct these reviews and return to the Judicial Council with an analysis and a recommendation.” The report contains three implementation options: (1) conduct an organization-wide evaluation of the AOC’s classification structure and compensation plan through the use of AOC staff; (2) conduct an organization-wide evaluation of the AOC’s classification structure and compensation plan through the use of an outside entity; or (3) conduct an organization-wide evaluation of the AOC’s classification structure and compensation plan using a hybrid approach in which an outside entity would review manager classifications and above, and AOC staff would review supervisor classifications and below, with oversight and validation of the proprietary methodology provided by an outside entity.

Previous Council Action

At the direction of Interim Administrative Director Jody Patel, the AOC Human Resources Services Office (HR) began the initial phase of an organization-wide classification and compensation study on August 1, 2012. HR began the review by collecting Position Description Questionnaires from incumbents of 39 classifications, covering nearly 225 employees.¹ This initial phase includes a review for proper Fair Labor Standards Act (FLSA) designation. HR is currently working with managers and supervisors in clarifying and confirming the detailed information collected. HR will be providing preliminary findings of the initial phase to the AOC Executive Office in early March 2013.

At its August 31, 2012 meeting, the Judicial Council directed the Administrative Director of the Courts to consider the use of an outside entity to conduct a review of the AOC's classification and compensation systems and ensure that policies governing the classification and compensation of employees are consistently applied throughout the organization. At the direction of the Administrative Director, HR has provided an analysis of options in conducting an organization-wide classification and compensation study.

Options for Consideration and Policy Implications

Option 1: Organization-wide evaluation by AOC staff (projected completion date December 2013)

Under this option, the AOC would conduct a comprehensive analysis of all positions for proper FLSA designation and review the classification structure and compensation plan for the entire AOC.

AOC HR would:

- Collect the appropriate information required to make legally defensible FLSA determinations and classification and compensation recommendations for all positions in the AOC;
- Evaluate and make recommendations for the appropriate FLSA designation for all AOC positions, providing written documentation in support of each of the recommendations for final approval by the AOC Legal Services Office (to be delivered to the Executive Office in early March 2013);
- Review the current classifications throughout the AOC for appropriate alignment with business needs and recommend classification strategies, possibly including the drafting of specifications for new classifications; and
- Conduct a comprehensive review of the compensation structure to align with best practices and identified external comparables.

¹ As of December 31, 2012, the AOC had 727 employees (includes regular and 909 temporary) and 183 classifications.

Benefits of adopting option 1

Most cost-effective. There would be no additional costs for this option outside of normal payroll. HR staff would be conducting the entire classification and compensation study without any assistance from outside entities.

Maintains timeline. This option maintains the existing timeline for completion. At the direction of Interim Administrative Director Jody Patel, in August 2012 HR collected and gathered detailed data from approximately 225 incumbents in 39 classifications within the AOC. If this option is selected, HR will continue the analyses of these positions and proceed in collecting data from all remaining incumbents in the AOC. Given HR's knowledge of the organization, the bulk of the project would focus on conducting the analyses without the need to devote a significant amount of time to research the current organizational structure. This option will allow the AOC to maintain the projected December 2013 completion date, and adheres to the timelines of 14 other Judicial Council directives that also focus on aspects of the AOC's classification and compensation system.

Classification and compensation structural maintenance. HR staff will maintain continuity in the methodology applied and the ability to maintain, review, and revise the updated classification and compensation structure.

Challenges of adopting option 1

Perceived lack of objectivity. AOC HR is confident in its ability to provide a neutral perspective and objective review of the classification structure and compensation plan; however, a full-scale review conducted solely by AOC staff, especially in the sensitive area of compensation, may be perceived as lacking objectivity. Oversight by an outside entity may alleviate doubts about the validity and reliability of the study's findings.

Delayed delivery of HR services to the branch. Since the study's inception in August 2012, given HR's reduced staffing resources, a majority of HR staff, including staff from different areas of the office, were assigned to the classification and compensation study. A large-scale study of this scope and breadth requires the full-time attention of multiple HR staff and would result in the further redirection or delay of other projects.

Option 2: Organization-wide evaluation by an outside entity (projected completion date September 2014)

Under this option, the AOC would seek the services of a consultant with experience and expertise in the public sector to conduct a comprehensive analysis of all positions for proper FLSA designation and to review the current classification structure and compensation plan for the entire AOC.

The outside entity would:

- Collect the appropriate information required to make legally defensible FLSA determinations and classification and compensation recommendations for all positions in the AOC;
- Evaluate and make recommendations for the appropriate FLSA designation for all AOC positions, providing written documentation in support of each of the recommendations for final approval by the AOC Legal Services Office. During the request for information (RFI) process, preliminary information indicated that most outside entities would not be responsible for making legal decisions on the FLSA findings, as was the case with the outside entities who submitted proposals in 2008, and the AOC Legal Services Office would make the final decisions;
- Review the current classifications in the entire AOC for appropriate alignment with business needs and recommend classification strategies, possibly including the drafting of specifications for new classifications; and
- Conduct a comprehensive review of the compensation structure to align with best practices and identified external comparables.

During the Strategic Evaluation Committee (SEC) review in 2010, a consultant advised the SEC that a top-to-bottom class and compensation review would cost approximately \$750,000 to \$1 million.

HR issued an informal request for information (RFI) on October 1, 2012, and distributed it to seven outside entities. Five of the seven outside entities responded to the RFI. The vendors were selected based on their responses to a 2008 request for proposals (RFP), *AOC Job Analysis, Classification and Compensation Study*. This RFP was not as comprehensive as the current study—specifically it did not include the preparation of job descriptions for every position within the AOC. The cost projection for the RFP was approximately \$400,000 dollars in 2008. It should be noted that the 2008 study was never initiated because of budget constraints.

Based on the responses received to the RFI, the AOC is confident that the outside entities who have submitted responses are capable of providing assistance with this study; however, a full-scale request for proposals, which would take between three to four months, would be required in order to accurately gauge the capabilities of each of the outside entities and the total cost of a comprehensive review.

Benefits of adopting option 2

Enhanced objectivity. The use of an outside entity to review classifications allows for a heightened level of objectivity.

Reduced perception of bias. The utilization of an outside entity may reduce any perception of bias.

Minimize delay in delivery of HR services to the branch. HR staff would be able to provide full attention to the myriad of HR services provided to the branch.

Challenges of adopting option 2

Most cost prohibitive. Based on the information provided to the SEC, a top-to-bottom class and compensation review would cost approximately \$1 million dollars. With the severe budget reductions over the last few years, the ability to identify additional funding would be challenging, if not impossible.

Loss of time and resources already invested. If an outside entity is chosen, some or all of the work already performed by HR may not be able to be used, resulting in delays and increasing overall costs. HR staff would have to halt the current analyses being performed until conclusion of the RFP process. This could result in the need to collect newly updated information, thereby further impacting the 225 incumbents and managers and supervisors who have already spent a significant amount of time responding to the questionnaires.

Extended timelines. The RFP process alone would extend the timeline for implementation; it is estimated to take three to four months before a contract can be executed. In addition, many of the potential outside entities are unfamiliar with the AOC and its organizational structure and business needs, which could further delay completion up to an additional three months. This option delays completion of the study to approximately September 2014. Fourteen Judicial Council directives are dependent on the completion of the study.

Classification and compensation structural maintenance. HR staff may be limited in the ability to maintain continuity in the methodology applied in reviewing, revising, and updating the revised classification and compensation structure.

Option 3: Organization-wide evaluation by both an outside entity and AOC staff (projected completion date December 2013)

Under this option, the AOC would adopt a hybrid approach in which an outside entity would review manager classifications and above, and AOC staff would review supervisor classifications and below, with oversight and validation of the applied methodology provided by the outside entity. If this option is approved by the Judicial Council, the AOC will attempt to conclude a contract with the Hay Group in compliance with the *Judicial Branch Contracting Manual*. The Hay Group is one of the five respondents to the informal RFI and can provide the proprietary point factor job evaluation methodology that HR is currently utilizing for the classification and compensation study. If approved, this option would be implemented in the following manner:

AOC HR would:

- Collect the appropriate information required to make legally defensible FLSA determinations and classification and compensation recommendations for all positions in the AOC;
- Evaluate and make recommendations for the appropriate FLSA designation for all AOC positions, providing written documentation in support of each of the recommendations for final approval by the AOC Legal Services Office. During the RFI, preliminary information indicated that the Hay Group would not be responsible for making legal decisions on the FLSA findings, as was the case with the outside entities who submitted proposals in 2008, and the AOC Legal Services Office would make the final decisions;
- Review the current classifications for appropriate alignment with business needs and recommend classification strategies, possibly including the drafting of specifications for new classifications for the classifications of supervisor and below; and
- Conduct a comprehensive review of the compensation structure for supervisors and below to align with best practices and identified external comparables.

The Hay Group would:

- Review the current classifications for appropriate alignment with business needs and recommend classification strategies, possibly including the drafting of specifications for new classifications for the classifications of manager and above;
- Conduct a comprehensive review of the compensation structure to align with best practices and identified benchmarks for the classifications of manager and above; and
- Provide oversight and validation of HR's application of the Hay Group proprietary job evaluation methodology and the compensation structure for the classifications of supervisor and below.

Benefits of adopting option 3

AOC staff already formally trained in the Hay methodology of job evaluations. Staff within HR are formally trained in the application of this proprietary point factor evaluation method. A key component in maintaining a sound classification structure and compensation plan is to ensure that periodic reviews are initiated on a consistent basis. Although future studies will not be as all-encompassing as the one currently under way, relying on internal AOC staff, fully trained in the methodology, to conduct smaller, targeted evaluations in the future will be more cost-effective than relying on external entities.

Hay Group methodology is widely accepted across multiple industries. The Hay Group's proprietary point factor evaluation method is based on a credible, simple, and coherent model of the characteristics of different levels of work. It enables comparison of different jobs and is highly flexible and able to cope with changing organizations like the AOC. The method is widely used and has been utilized by public- and private-sector organizations worldwide to evaluate clerical, professional, and managerial/executive-level jobs, which make up the majority of classifications within the AOC. However, its primary strength lies in its relative objectivity; it is a transparent process that focuses on quantitative measures to assess job content and context.

Proprietary methodology. The utilization of the Hay Group’s expertise would allow HR to continue with the current AOC classification and compensation study already under way since August of 2012 as well as adhere to the timelines of 14 other Judicial Council directives that also focus on aspects of the AOC’s classification and compensation system. Because this point factor evaluation method is proprietary to the Hay Group, the Hay Group is the only outside entity that is able to validate the work to be performed by HR staff. This option would allow the AOC to maintain the projected December 2013 completion date.

Enhances the objectivity of the study. The use of an outside entity to review classifications allows for a heightened level of objectivity.

Challenges of adopting option 3

Associated costs. The projected cost of this option is expected to be approximately \$100,000 to \$120,000 for the Hay Group to conduct a classification and compensation review of classifications of manager and above and review the AOC’s application of the Hay methodology to the remaining classifications. This price includes a customized compensation survey for the classifications of manager and above based on comparable entities as determined by the AOC.

Complexity of methodology. The Hay Group method of job evaluation is complex and time-consuming to administer.

Summary of the Three Options

The following table provides a side-by-side comparison of implementation options available to the AOC.

	Methodology	Projected Timeline	Cost/Range
Option 1	Study conducted by AOC staff using Hay Group methodology and an FLSA evaluation conducted by HR and verified by AOC Legal Services Office.	Targeted completion date of December 31, 2013	N/A
Option 2	Study conducted by an outside entity using an unknown methodology and an FLSA evaluation to be verified by AOC Legal Services Office.	Estimated completion date of September 30, 2014	\$750,000 to \$1 million
Option 3	Hay Group will conduct evaluations of all manager and above classifications.	Targeted completion date of December 31, 2013	\$100,000 to \$120,000

	<p>Hay Group will validate AOC HR application of the Hay Group methodology.</p> <p>The AOC will apply the Hay Group methodology for all supervisor and below classifications.</p> <p>An FLSA evaluation will be conducted by HR and verified by AOC Legal Services Office.</p>		
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Implementation Requirements, Costs, and Operational Impacts

All three options require HR staff participation, with varying degrees of responsibility. As project managers of this initiative, HR will serve as liaisons between the Executive Office and the outside entity, facilitate discussions, ensure that key deliverables are met, and provide the outside entity with historical context of prior decisions concerning the AOC classification structure and the compensation plan.

Attachments

No attachments are included with this report.