

***President's Advisory Committee on Efficiency and Effectiveness
(PACE) Report***
(November 2006)

***Summary of the Section on
Human Resources and "Personnel Flexibility"***

What is "personnel flexibility?"

An effort to pull state employees in the UNC system who are subject to the State Personnel Act out from under the act so as to give UNC Human Resources departments greater flexibility in managing personnel.

PACE identifies four "barriers" to efficient management of human resources (personnel) in the UNC system. Two are identified as state-level barriers and two as University system-level barriers. The *only* state-level barrier that is addressed in the Report is the one that advocates personnel flexibility.

- **State-Level Barrier:** Lack of flexibility to administer the University system's personnel resources (p. 158, 171-183).
 - "In higher education, more than 70% of total university resources are typically dedicated to HR costs" (p. 169, 175).
 - Control of *half* of this important University resource is now in the hands of legislators instead of in the hands of HR professionals. This is because:
 - More than half of the 40,000 (about 21,000) employees who work for the University are governed by the provisions of the State Personnel Act (NCGS Chap. 126)—otherwise known as SPA employees.
 - Employment policies and compensation for SPA workers are set by the General Assembly, the State Personnel Commission, and the Office of State Personnel (OSP) (p. 175).
 - The other half of University employees are EPA (Exempt from the Personnel Act).
 - "The University establishes the policies and compensation for university employees who are [EPA, both faculty and non-faculty]" (p. 175).
 - Salary funds, in general, are appropriated by the legislature and given to the University as a "pool" for the University to administer to EPA employees as it sees fit.
 - Only exception is when Legislature "takes sweeping actions that apply to all 'State employees,' including EPA...such as mandating the University to allocate resources for things like across-the-board minimum salary adjustments or bonus leave awards, *which are often neither strategic nor logical for University goals and priorities*" (p. 175-176, emphasis ours).
 - The University system in effect has three personnel systems that it administers—one for SPA personnel, one for EPA (Exempt from the Personnel Act) who are faculty, and one for EPA Non-faculty (who are senior academic, administrative, instructional and research personnel). This is inefficient (p. 173).
 - The three-system situation is a result of two things:

- The distinction between SPA and EPA employees that has been established by legislation.
- The increasing tendency over the years for more and more non-faculty staff positions at the University to be classified as EPA positions, creating more and more EPA Non-faculty staff to manage. (For the history of this tendency, see pp. 171-173.)
- Specific problems with this legislative control include:
 - Problems applicable to all state employees:
 - Awarding mandatory Bonus Leave without providing funding to cover the pay-out for the leave (p. 176).
 - In the last five years, this has cost the University \$90 million in one-time costs, most of which have yet to be paid out (pp. 182-183).
 - Mandatory Equal Employment Opportunity training for all state managers and supervisors.
 - Mandatory employment verification requirements.
 - Problems applicable only to SPA employees:
 - Duplicate data entry of personnel actions due to need to use a State reporting system (for SPA employees only) while also using campus-based systems that manage both SPA and EPA employees.
 - Report admits that the BEACON project will ultimately be a good fix for this problem (p. 177).
 - Mandatory longevity pay encumbers financial resources *without tying the distribution of those resources to performance reviews that help to ensure that employees are productively contributing to the strategic purposes of the University* (p. 178).
 - Under personnel flexibility, University would honor expectations of current SPA employees for longevity pay increases, but *new hires would be rewarded for their work strictly on the basis of the comparative labor market and job performance.*
 - Obsolete job classification system and compensation caps, which even OSP acknowledges are 15-20% behind the market (p. 178).
 - Mandatory pay increases for SPA employees that do not reflect employee performance (p. 179).
 - Corollary: Time and effort spent doing mandatory annual performance reviews that are “*almost entirely unrelated to any direct value-added outcome*” since performance bonus pay has never been funded by the legislature.
 - Studies of pay incentives that are linked to performance show productivity gains of about 30%. This would mean an extra “\$255 million in added institutional capacity” for the UNC system (p. 179).
 - Cost in time and effort of complying with OSP audits and a new, additional requirement for “in-depth personnel management reviews” (p. 180).

- Restrictions on pay adjustments for current employees prevent UNC from being able to make pay increase offers to retain valued staff (p. 180-181).
 - Corollary: Cost of filling the vacancy is about \$2,000 each (p. 182).
 - Strategy to remove barrier: Seek broader legal authority to manage HR resources by trying to use the University system’s enabling legislation (NCGS 166) to offset the authority of the SPA legislation.
 - Benchmarks justifying removal:
 - In 32 states, most non-faculty employees of the universities were in HR systems not tied to the states’ systems (p. 181).
 - Especially important that most prestigious public universities are set up this way.
 - Universities with autonomous HR systems said they “believed they were better able to attract, motivate, and retain the talent they need to be successful” (p. 181). [No objective verification of this belief was provided.]
 - In states where university employees were a part of the state system, they generally also were unionized so that collective bargaining could affect policies and management of personnel activity.
 - [State employees in NC are forbidden by law to engage in collective bargaining that might affect the policies and management conditions under which they work.]
 - Taking SPA employees out from the State system “could generate cost savings of between \$10,000,000 - \$15,000,000 in annual time and effort” (p. 183).

The other three barriers that were identified are:

- State-Level Barrier: The fact that the benefit package at the University is not competitive with other higher education institutions (p. 158).
 - *(The Report does not discuss this barrier.)*
- System-Level Barrier: Inefficiencies in UNC policies and procedures regarding personnel (p. 158, 159, 166-170).
 - Having two categories of personnel that are managed in two different units on most of the system campuses results in needless duplication of efforts and services and causes morale problems among employees.
 - SPA personnel are managed by HR offices.
 - Employees exempt from the State Personnel Act, otherwise known as EPA employees, are managed by Academic Administration offices.
 - This situation exists because originally almost all EPA positions were faculty positions that were most logically managed by Academic Affairs offices.
 - Over the years, more and more positions were created as EPA positions rather than SPA positions. Today there are about 20,000

EPA positions in the University system—with almost 14,000 being faculty and more than 6,000 being EPA Non-faculty.

- “To some extent, [the barrier to efficiency] lie[s] within UNC policies that generally guide ‘EPA’ employment practices” (p. 167).
- Strategy to remove barrier: Have all campuses combine personnel administration into a common office.
- Strategy to remove barrier: Review system policies and procedures to differentiate those uniquely needed for EPA faculty and those necessary for EPA Non-faculty.
- Having HR officers who are not considered a part of each campus’s executive leadership group.
 - Strategy to remove barrier: Make all HR heads a part of each campus’s leadership group.
- System-Level Barrier: Lack of collaboration, centralization, or regionalization to “better leverage” HR functions and abilities throughout the system (p. 159, 161-165).
 - Strategy to remove barrier: Convene working group to explore centralizing common HR functions such as electronic employment, HRIS systems, benefits issues, training, employee relations, and electronic records management.