

# *CITY OF FORT LAUDERDALE*

## OFFICE OF THE CITY AUDITOR

*Review of the Segal Waters Consulting Study “City of Fort Lauderdale,  
FL – 2018 Total Compensation Survey Results – General Employees”,  
dated April 2018*

*Report #18/19-01*

October 8, 2018



## Memorandum

Memo No: 18/19-01

Date: October 8, 2018

To: Honorable Mayor and Commissioners

From: John Herbst, CPA, CGFO, CGMA  
City Auditor

Re: Review of the Segal Waters Consulting Study "City of Fort Lauderdale, FL - 2018 Total Compensation Survey Results – General Employees", dated April 2018

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The City Auditor's Office (CAO) was asked to review the methods and assumptions of the 2018 Total Compensation Survey Results – General Employees, dated April 2018 (the Study), performed by Segal Waters Consulting (the Consultant).

The intent of the review was to address two questions:

1. Was the methodology and approach in defining the job classifications and gathering the data reasonable and make sense?
2. If the approach was good for gathering their data, did they capture and present the data in the Consultant's final report in an accurate way?

As per the Request For Proposals (RFP), page 14, paragraph 6, "The purpose of the study is to examine the City's current classification schedule, compensation practices (salary ranges, range spreads, and midpoint progressions), and update all job descriptions (approximately 550 job titles) to ensure accuracy and continuity across each of the service areas. The project shall consist of an analysis of the City's job descriptions, compliance with the Fair Labor Standards Act (FLSA) exemption status requirements, and the Equal Employment Opportunity (EEO) Occupational Group designations." Phase 1, the Classification and Total Compensation component of the Study, cost the City \$300,000.

### **CONCLUSION**

**Question 1.** Was the methodology and approach in defining the job classifications and gathering the data reasonable and make sense?

The CAO concludes the Consultant's planned methods and approach to the project, as described in its City-accepted proposal, seems reasonable overall; however, the following two fundamental issues were observed:

- The scope of service “To make us competitive in the marketplace” is deemed vague and subjective, which could lead to a failure to meet expectations, incur cost overruns, and experience delays
- Total compensation for City employees was inaccurately calculated due to double counting of retirement benefits.
  - **Auditor Comment:** On 09/27/2018, the Consultant provided two additional revised Studies to address the error identified.

Question 2. If the approach was good for gathering their data, did they capture and present the data in the Consultant’s final report in an accurate way? – **Scope Limitation**

Due to a scope limitation, described in the Basis for Disclaimer of Opinion paragraph below, we were unable to obtain sufficient audit evidence to provide a basis for an opinion as to the accuracy of results of the Study. A scope limitation is a restriction placed on the audit that precludes the CAO from accomplishing our objectives and plans, including a lack of access to records, personnel, and physical properties relevant to the performance of the engagement.

**Basis for Disclaimer of Opinion**

We were unable to obtain sufficient relevant source documentation (i.e. survey responses, Access database) nor a complete history and reconciliation of salary and benefits adjustments to support the results and findings of the Study.

As an example, the Consultant’s reasons for not providing sufficient documentation to the CAO include, but are not limited to the following:

- The information is proprietary
- The process is very complicated
- Gathering and explaining the information would be very time consuming and would require incurring additional cost to the City

From the review of information that was provided, the CAO identified the following:

- Incomplete and/or Missing Source Documents that Support Key Conclusions
  - Specifically, the Consultant was unable to provide the CAO with completed market survey responses and the compilation of the surveys in a Microsoft Access database file, per contract deliverable requirements
- Lack of Version Control of the Consultant’s Files
  - Throughout the two year study, the CAO observed a lack of file version nomenclature (e.g. v1, v2, v3, etc.) nor single document repository (e.g. Sharepoint, Dropbox etc.). Within the data itself, use of an adequate “primary key,” an important unique record identifier such a job code or job number as a control to ensure consistency and completeness of data among files, was not readily observed. For example, the matching of job

- titles among data files appears to have been done by job titles, which were spelled differently or abbreviated in different data files.
- Survey Files were not fully functional
    - Review of some of the Microsoft Word documents used for internal survey revealed that buttons/indicators for respondents to choose their applicable answer within a list could not be disengaged once engaged. This could create a potential problem in the event a respondent wanted to change their answer before submission. This potential problem was actually observed as some surveys showed more than one button indicated (sometimes all buttons indicated) when only one response was instructed. In one of these examples, the respondent had to write-in “correct answer” to clarify which answer was intended.
  - Files do not support results
    - Limited testing, due to the limited support available, revealed that the results from the internal surveys did not always match the responses recorded by the Consultant in the job scoring spreadsheet to a significant extent, impacting pay grade assignments.
- In addition, neither the Consultant nor the Human Resources Department (HR) were able to provide clear and complete explanations of how the results were derived. The final figures involved subjective reasoning by the City and/or the Consultant, which was not adequately documented and/or may be difficult to consistently replicate should the City want to re-perform this project in the future without aid of a consultant.

### **Objectives**

The focus of our review was to ensure that the scope of services, methodology, and documentation were reasonable, accurate, and supported the results of the Study.

### **Scope & Methodology**

As the CAO was asked to review the methods and assumptions used by the Consultant, the CAO approach was as follows:

1. Reviewed Request for Proposal (RFP) #565-11739 dated May 3, 2016 to determine the goals and objectives of the Study.
2. Reviewed the winning proposal submitted by the Consultant to determine whether it met with goals and objectives as established in the RFP.
3. Defined CAO scope of work as review of Phase I, “Comprehensive Classification and Compensation Study”, unless something material came to our attention regarding a subject matter covered in Phase II, “Developing Organization Charts, Job Families, and Career Ladders and/or Phase III, “Developing Job Competencies”.
  - a. Phase I entailed two parts: classification analysis and market assessment

- b. Scope excluded review of the FLSA analysis within Phase 1 and assessment of any judgmental methodology based on consultant expertise.
4. Developed an understanding of the Consultant's five step work plan for Phase I by review of the Consultant's proposal and follow-up inquiry with the Consultant and HR.
5. Gathered, inspected, and tested supporting documentation to corroborate implementation of the described method and validate its results recorded in the Study.

The following summarizes CAO's understanding of the Consultant's methodology, noting apparent assumptions.

**Classification Analysis:**

1. A database of all City general employees was provided by the City to the Consultant.
2. In consultation with the City's HR Team, the Consultant developed a customized internal survey instrument, Job Description Questionnaire (JDQ), to assure the City's compensation practices are internally equitable.
3. Unconfirmed (Scope Limitation): Upon review of the JDQs and internal inquiries, a job classification structure was created by the City and the Consultant, and the City's jobs were assigned within it, massaged and finalized, taking into account inconsistencies in internal and external competitiveness.

**Market Assessment:**

1. Out of the approximate 550 position titles, the Consultant evaluated the pay and benefits, of 92 "benchmark jobs" through a market comparison survey.
  - a. This selection covered 1,504 general employees out of a total of 1,679 (266 Management/Confidential, 1,160 Teamsters and 253 Federated) approximately 90% of the roughly 1,679 full-time general employee workforce.
  - b. The City, via group meeting, decided which job titles would be benchmarked. No criteria were apparently applied in deciding.
  - c. The peer-employers selected for the benchmark survey were those that the HR Team felt were representative of the relative labor market, in which the City competes for talent (peers defined in the RFP). The sample of peers was limited by HR to 27.
2. Unconfirmed (Scope Limitation): The benchmark comparison surveys, to obtain total compensation information, were sent by the Consultant to the 27 peers and compiled upon receipt.
  - a. Unconfirmed (Scope Limitation): Of the 27 peers, 13 responded to the pay section.

- b. Additionally, the consultant completed 5 surveys on behalf of non-responding peers from information on the peers' website, and up to 3 third party data sources were used to include private market pay for jobs, if applicable.
  - c. The realized sample size was 18 (60% of the planned sample size).
    - i. The reliability of the resulting limited sample size appears to be an assumption.
      - 1. Individual sample size seems similar. As per the Study, the Consultant indicated 3 survey responses per benchmark job was statistically significant, but provided no support for this claim.
  - d. Unconfirmed (Scope Limitation): the surveyed pay results were adjusted by a third party's cost-of-labor factors differing among survey respondents.
    - i. The reliability of these adjustment factors appears to be an assumption since only one source was used; however, impact on results is likely negligible.
  - e. Unconfirmed (Scope Limitation): Of the 27 peers, 12 responded to the benefits section.
    - i. Flawed method: As per Table 47 of the 2018 Total Compensation Survey Results – General Employees, dated April 2018, the Consultant added the normal cost of the defined benefit plan (DBP), 18%, to the current cost of the defined contribution plan (DCP), 9%, to the cost of Federal Insurance Contributions Act (FICA), 7.65% to arrive at the Total Employer Retirement Contribution of 34.65%. **Refer to CAO Observation #2 below.**
3. Unconfirmed (Scope Limitation): The Consultant developed a proposed pay grade structure of approximately a dozen progression steps tiered at their midpoints by 11% and 8% and with range widths of 55% and 70% for general and executive employees, respectively. The survey's lowest pay grade established the midpoint of the first tier.
- a. Because CAO was not provided the completed surveys, we could not verify the accuracy of the foundational pay grade from which the rest of the structure was developed.
  - b. The two factors used to develop the pay grade structure appear to be assumptions. Alternate versions exist; CAO did not analyze any to determine their various impacts on results.
4. Unconfirmed (Scope Limitation): The Consultant scored non-benchmark jobs for pay grade assignment using a proprietary assessment tool and another internal survey, Job Evaluation Model (JEM). Scoring results were massaged and finalized.
- a. This tool was used to assign weighted points across eight categories: Formal Education, Experience, Management/Supervisory, Human Collaboration,

Freedom to Act, Technical Skills, Fiscal Responsibility and Working Conditions

- i. The categories and their weights appear to be assumptions. CAO did not analyze them to determine their individual impacts on results.
5. Benchmark jobs were worked into the proposed pay grade structure with adjustment; their market responses on pay were not their final assigned pay grades.

### **CAO Observations on Method Assessment (details):**

#### **Observation 1:**

The RFP# 565-11739 technical specifications was looking for a classification and compensation study that would, amongst other things, look at the City's job market competitiveness. As per page 16 of the RFP

“This survey will include offerings, jurisdiction contributions, employee contributions, annual costs, percentage of payroll information, and other such data to inform the City of its competitiveness for total compensation offered to its employees. It will also provide best practices and recommendations on how the City can enhance its benefit and total compensation competitiveness, if found to be lagging.”

The scope for services, “to make us competitive in the marketplace” was not clearly defined. There would be one type of approach if the purpose of the study was for the retention of existing general employees, versus a different approach if for competitive recruitment verses, and a third type of approach to develop a cost allocation methodology.

#### **Observation 2:**

There is an incorrect calculation of the retirement benefit component of the total compensation calculation. At the direction of HR, the Consultant added the normal cost of the defined benefit plan (DBP), 18%, to the current cost of the defined contribution plan (DCP), 9%, to the cost of Federal Insurance Contributions Act (FICA), 7.65% to arrive at a Total Employer Contribution of 34.65%. There are multiple concerns with this approach.

Although, it is correct that all general employees are receiving the FICA benefit and most full-time General employees may be eligible to participate in a retirement plan (some general employees' may not be eligible), no general employee can be accumulating benefits in both the DBP and DCP.

- If the study was based upon recruitment, the current DCP 9% would apply
- If the study was based upon retention, the DBP 18% would apply
- If the intent was to develop a labor cost allocation plan then a weighted average of all pension plan percentages would apply

As noted in Auditor Comment highlighted on page 2, the Consultant subsequently provided HR with a revised report that corrects for the error noted above, at an additional not-to-exceed cost of \$26,500.

cc: Lee R. Feldman, City Manager  
Alain Boileau, City Attorney  
Jeff Modarelli, City Clerk  
Stanley Hawthorne, Assistant City Manager  
Christopher Lagerbloom, Assistant City Manager