

Pay Administration Policy

§ 1.	The Classification & Compensation System	2
§ 1.1.	Philosophy	2
§ 1.2.	Purpose	3
§ 1.3.	The Importance of Pay Administration	3
§ 1.4.	Salary Structures, Pay Grades, and Salary Ranges	4
§ 1.5.	Quartile Descriptions.....	5
§ 1.6.	Salary Structure Adjustments.....	6
§ 1.7.	Availability of Funds; Authority	6
§ 2.	Scope of This Policy	7
§ 2.1.	Types of Employees That Are Covered, or Not Covered, by This Policy	7
§ 2.2.	Situations Where This Policy Does Not Apply	8
§ 3.	Determining Salary	8
§ 3.1.	Minimum and Maximum of the Salary Range and Recruitment Range.....	8
§ 3.1(a)	Below Minimum of the Range	8
§ 3.1(b)	Above Maximum	9
§ 3.2.	Criteria That Must Be Met Within the Agency to Begin the Process	10
§ 3.2(a)	Request from Management to Agency HR Staff.....	10
§ 3.2(b)	Limits on In-Range Adjustments if Active Performance/Discipline.....	10
§ 3.3.	Step-by-Step Process for Setting Pay	10
§ 3.3(a)	Step One: Baseline Salary Calculator	10
§ 3.3(b)	Step Two: Pay Factors.....	11
	Pay Factor # 1, Budget Resources	12
	Pay Factor # 2, Internal Pay Equity.....	12
	Pay Factor # 3, Distinguishing Specific Experience and Skills	13
	Pay Factor # 4, Specialized Education, Licensures, and Certifications	14
	Pay Factor # 5, Recruitment/Retention Issues Specific to Market.....	14
§ 3.3(c)	Step Three: Measure Against the Quartile Descriptions.....	14
§ 3.3(d)	Step Four: Flexibility Authorization and (If Applicable) OSHR Approval	15
§ 3.3(e)	Step Five: Support the Action with Documentation and Enter the Documentation in the System of Record	15
§ 3.4.	Exception Requests	17
§ 3.5.	OSHR Process for Approvals, Exceptions, and Variances	17
§ 4.	Particular Situations.....	19
§ 4.1.	Part-Time Salary Rates.....	19
§ 4.2.	Employee Movement Between Positions	19
§ 4.3.	Trainees.....	19
§ 5.	Salary Increases.....	20
§ 5.1.	Salary Increases for Non-Probationary Employees	20
§ 5.2.	Salary Increases for Probationary Employees.....	21
§ 5.3.	Salary Increases for Trainees	21
§ 5.4.	Salary Increases at End of Probationary Period.....	22
§ 6.	Salary Range Revisions, Special Rates, and Non-Standard Applications.....	22
§ 6.1.	Salary Range Revisions.....	22
§ 6.1(a)	Definition.....	22
§ 6.1(b)	Salary Rates Above Standard Rates.....	22
§ 6.1(c)	Result of a Salary Range Revision.....	22
§ 6.1(d)	Special Salary Range Situations	23

Pay Administration Policy (cont.)

§ 6.2. Non-Standard Pay Practices	24
§ 7. Definitions	24
§ 8. Responsibilities	26
§ 9. Miscellaneous Terms.....	27
§ 9.1. Effective Date and Duration	27
§ 9.2. Sources of Authority.....	27
§ 10. History of This Policy	28

§ 1. The Classification & Compensation System**§ 1.1. Philosophy**

It is the philosophy of the State of North Carolina to appropriately and equitably compensate its employees, to encourage excellence in performance, and to maintain the labor market competitiveness necessary to recruit, retain, motivate, and develop a competent and diverse workforce.

To accomplish this, the state utilizes a quartile-based system where the midpoint of the salary range is aligned to the market 50th percentile for established state classifications. Under this Policy,

- Salaries around the midpoint are where the state generally strives to align employees who:
 - Have several years of experience beyond the minimum qualifications set out in the job classification’s specification, and
 - Are competently functioning in their positions.
- Salaries around the midpoint are also where the state generally strives to align new hires who:
 - Have documentation that shows several years of experience beyond the minimum qualifications set out in the job classification’s specification, and
 - Have documentation that demonstrates their ability to competently function in their positions.

The precise process for setting salary is introduced below in Section 1.4 of this Policy and is discussed in detail in Section 3.3 of this Policy.

Salary determinations should be viewed in the context of the state’s Total Rewards package. The Total Rewards package includes not only salary, but also any bonuses or other forms of pay, paid holidays and leave, the opportunity to receive the state pension and

Pay Administration Policy (cont.)

other retirement benefits when eligible, other benefits such as the programs available through NC Flex, a flexible work-life balance, recognition, and development.

The classification & compensation program and its compensation plans are based on consistent principles and practices that are equitable, legally defensible, and provide for sound fiscal discipline yet are flexible enough to meet changing business needs. The program fosters a culture of accountability while encouraging employees to actively achieve their career potential with North Carolina state government.¹

§ 1.2. Purpose

The purpose of this Policy is to implement a standard set of compensation programs and procedures for permanent, probationary, and time-limited state employees, along with standard procedures for job classification and salary administration actions, in accordance with N.C.G.S. §§ 126-4(1) to (3), 126-4(6), and N.C.G.S. § 126-3(b)(4)-(6).

§ 1.3. The Importance of Pay Administration

Pay Administration is one of the most highly scrutinized aspects of Human Resource Management. An employee's salary is public information, unlike other personnel file materials which are confidential under Article 7 of Chapter 126 of the North Carolina General Statutes. There are many laws addressing compensation and equity. Additionally, good pay practices are important for good management, maintaining employee morale, as well as attracting and retaining employees. State salaries are paid through taxpayer funds, and fiscal responsibility is expected.

Salary decisions, for any position, are fact-specific and often complicated due to interrelationships between each position's pay with other positions. When setting salary, agencies² must use the step-by-step process in this Policy, which provides a structure for organized, accurate decision-making. It is particularly important that agencies consider whether pay is equitable for similarly situated employees. Section 3.3(b) of this Policy

¹ See 25 NCAC 01D .0101 (providing that the salary rate structures shall be adequate to provide "compensation that encourages exceptional performance and maintains labor market competitiveness within the limits of financial resources").

² References to "agencies" in this document also include commissions, boards, and university or community college systems or institutions when they set the pay of employees who are subject to the State Human Resources Act.

Pay Administration Policy (cont.)

provides a definition of “similarly situated” and sets out a process for agencies to evaluate pay equity as they make pay administration decisions.

§ 1.4. **Salary Structures, Pay Grades, and Salary Ranges**

The compensation program shall be administered through salary structures, which are the framework for managing compensation in a fair and consistent manner. The state’s salary structures are designed and developed to align with the market rate of pay, based on labor market analysis. Each position is assigned to a pay grade with an associated salary range.³ The pay grade’s salary range is constructed with a minimum, midpoint, and maximum salary rate, and further divided into quartiles (quarters of equal size).⁴

The process described in Section 3 of this Policy, entitled “Determining Salary,” is used to determine an employee’s salary within the range. There are five steps to the process:

1. Agency staff start with a salary figure from the Baseline Salary Calculator, which measures how much experience and education a candidate or employee has above the position’s minimum requirements. (See Section 3.3(a) of this Policy for details.)
2. Then, agency staff must consider pay factors established under this Policy. There are two mandatory factors that must be considered (budget resources and internal pay equity) and three optional factors that may be considered. Based on application of the pay factors, agency staff can adjust the proposed salary from the level produced by the Baseline Salary Calculator. (See Section 3.3(b) of this Policy for details.)
3. The next step requires review of the quartile description, stated in this Policy, for the quartile where the agency’s proposed salary would be found. Agency staff must confirm and document that the qualifications and capabilities listed in the relevant quartile description match the hiring process documentation (such as the application) for the candidate. (See Section 3.3(c) of this Policy for details.)

³ 25 NCAC 01D .0102(a).

⁴ Quartile 1 includes the minimum to 24.99999% of the salary range. Quartile 2 starts at 25.00% of the salary range and runs up to (and including) the midpoint. Quartile 3 starts immediately above the midpoint and runs up to 74.99999% of the salary range. Quartile 4 starts at 75.00% of the salary range and runs up to the maximum.

Pay Administration Policy (cont.)

4. The agency must review its flexibility authorization chart to determine whether the proposed action needs to go to OSHR for review and approval. (See Section 3.3(d) of this Policy for details.)
5. Finally, agency staff must review the materials they have created to document the decision-making process. This Policy calls for agencies to use a form, entitled “**Form SAL,**” as the foundation for this documentation. This form must be placed in the OSHR-designated HR system of record, and it will be the core document sent to OSHR when an action requires OSHR approval. (See Section 3.3(e) of this Policy for details.)

§ 1.5. Quartile Descriptions

The following quartile descriptions illustrate the assessed qualifications and expected capabilities of an employee in that quarter of the salary range. The quartile descriptions are listed below.

Quartile 1	The individual has no or limited prior related education and experience above the minimum required for the job classification, possesses entry level qualifications, and/or uses on-the-job education and experience to develop knowledge and skills.
Quartile 2	The individual demonstrates a solid base of knowledge and skills gained by related education and/or prior experience. The individual proactively engages in acquiring additional education/development to proficiently, consistently, and independently perform key duties.
Midpoint	The individual has experience competently performing all expected duties of the position independently and consistently. The individual continues to participate in additional education/development to become even more skilled or proficient. Typically, the individual has gained this level of independence based upon several years of experience beyond the minimum qualifications set out in the job classification specification. <i>NOTE: The midpoint is the target for the typical employee who is experienced and can competently function in the position.</i>
Quartile 3	Individual consistently and independently achieves proficiency above the level of required duties and responsibilities of the position at the midpoint. It is expected that the individual will add essential value to the position by, for example, providing “hard to recruit” knowledge/skills or delivering specialized skills.

Pay Administration Policy (cont.)

Quartile 4	Individual is a proven subject matter expert in their position with an in-depth knowledge and ability to fulfill all the duties and responsibilities of the position. The individual exhibits a consistently high level of proficiency and related value-added skills. The individual's file has documentation of highly specialized, related expertise and experience.
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The minimums, midpoints, maximums, and quartiles in the pay grades are designed to be competitive with rates in the external labor market,⁵ taking into consideration both public-sector and private-sector markets. To the extent possible while still reflecting competitive factors in the labor market, the salary structures will reflect the hierarchy within state government employment. They also will be consistent with the state's ability to pay and will support equity.⁶

§ 1.6. Salary Structure Adjustments

The salary structures will be revised, in response to labor market trends, on a recurring cycle and where needed.⁷ The Office of State Human Resources ("OSHR") will conduct labor market studies at regular intervals and make needed adjustments to ensure the salary structures maintain an appropriate level of competitiveness to recruit and retain a skilled workforce. Those adjustments may result in adoption of new salary structures and/or salary range revisions at the discretion of OSHR, as approved by the State Human Resources Commission (the "Commission"). Salary structures are sometimes revised by legislative action.

§ 1.7. Availability of Funds; Authority

The approval of all personnel actions, including salary increases of any kind, is subject to the availability of funds. No action can be implemented that would exceed the funds available. Any written salary commitment shall include a statement of notification that the salary is subject to the availability of funds. Communications about salary are subject to retraction if there is an administrative error or the salary has not been approved by the proper authority.

⁵ 25 NCAC 01D .0102(a).

⁶ 25 NCAC 01D .0102(a).

⁷ 25 NCAC 01D .0101.

Pay Administration Policy (cont.)

§ 2. Scope of This Policy

The compensation program and its component plans shall be administered through this statewide Pay Administration Policy. This Policy covers all pay plans, except for the situations noted below in this section.

§ 2.1. Types of Employees That Are Covered, or Not Covered, by This Policy

This Policy applies to full-time and part-time permanent, probationary, and time-limited employees.⁸ This Policy applies not only to career State employees, but also generally to employees with exempt policymaking, exempt managerial, confidential assistant, confidential secretary, chief deputy, and chief administrative assistant status, as well as probationary State employees.⁹ This Policy does not apply to temporary employees.

The statute makes some employees statutorily exempt from the policies, rules, and plans established by the Commission under N.C.G.S. §§ 126-4(1) to 126-4(3) and 126-4(6).¹⁰ For these statutorily exempt employees, there may be situations where it is appropriate to have a different classification and compensation philosophy. Agencies are encouraged to consult with OSHR for these positions to help build a common classification and compensation system for the state as one employer.

Some agency heads have special statutory authority to set salary.¹¹ Nothing in this Policy supersedes these statutory authorizations.

⁸ More specifically, this Policy applies to employees unless they are exempt from the policies, rules, and plans established by the State Human Resources Commission under N.C.G.S. § 126-4(1), the statute on “position classification plans”; § 126-4(2), the statute on “compensation plans”; § 126-4(3), the statute on “reasonable qualifications as to education, experience, specialized training, licenses, certifications, and other job-related requirements pertinent to the work to be performed”; and § 126-4(6), the statute on “appointment, promotion, transfer, demotion and suspension of employees.”

⁹ The statutes on these types of exempt employees — N.C.G.S. §§ 126-5(c)(1)-(4) and 126-5(c7) — specify that although they are exempt from many provisions of the State Human Resources Act, these types of exempt employees are subject to the policies, rules, and plans established by the Commission under the statutes listed in footnote 8. This Policy is established by the Commission under the statutes listed in footnote 8. Therefore, this Policy generally applies to exempt policymaking, exempt managerial, confidential assistant, confidential secretary, chief deputy, and chief administrative assistant employees.

The text indicates that these employees are “generally” covered by this Policy because some statutes create specific exemptions from this Policy for particular kinds of exempt employees at particular agencies. See footnote 11 below for an example.

¹⁰ See, for example, N.C.G.S. §§ 126-5(c1), (c8), and (c11).

¹¹ For example, Council of State agencies have the authority to set the salary of their exempt policymaking and exempt managerial positions within a modified version of the salary ranges established under this Policy. They may exceed the maximum rate plus ten percent. N.C.G.S. § 126-5(c14). The

Pay Administration Policy (cont.)

§ 2.2. **Situations Where This Policy Does Not Apply**

Refer to the separate Career Banding Salary Administration Policy for policy guidance on pay administration for employees who remain in the career banding structure/system.

The application of legislative pay increases and any Salary Adjustment Fund will be specific to the guidelines as issued by OSHR, the Office of State Budget and Management, and the North Carolina General Assembly, outside of this Policy and based on legislation.

Positions with legislative instructions, such as statutory step plans, should be administered under the specific provisions of the statute. Agency staff may administer these statutory step plans, and shall consult with OSHR to ensure consistent application of the same statutory language between different agencies. If agencies have questions about the interpretation of these statutes, OSHR may issue interpretive guidelines after consultation with legislative staff and agency staff.

§ 3. **Determining Salary**

The process described in this section of the Policy must be used by Human Resources staff and hiring managers when setting the salary of new employees and when providing salary adjustments to existing employees.

§ 3.1. **Minimum and Maximum of the Salary Range and Recruitment Range**

§ 3.1(a) **Below Minimum of the Range**

Subject to the exceptions listed in the last sentence of this paragraph, agencies shall not set salaries below the minimum of the salary range for the job classification.¹² Subject to those exceptions, agencies also shall not set salaries below the minimum of the recruitment range published in the vacancy announcement. These provisions do not apply (i) when the agency already has similarly situated employees in the same job classification below the minimum due to funding issues, (ii) when otherwise necessary to maintain equity with similarly situated existing employees who are also below the minimum, and (iii) to OSHR-approved trainee progressions.

State Chief Information Officer may set salaries for Department of Information Technology employees within the salary ranges established under this Policy. G.S. § 126-5(c15)(2).

¹² 25 NCAC 01D .0102(a).

Pay Administration Policy (cont.)

When non-trainee employees fall below the minimum of the salary grade for any reason (such as salary structure adjustments, salary range revisions, or hiring below the minimum under exception (ii) above):

- Any salary increase is subject to the availability of funds. The employee's salary will not increase if funding is not available.
- Agencies should give a priority for funding to employee salaries that are below the minimum of the range. In determining relative priority, agencies must also take into consideration internal equity.
- The agency must provide OSHR, at implementation and on March 1 of each year, with its plan (contingent on funding) to increase salaries to the minimum.
- Agencies should contact OSHR to discuss any exception or variance that has been issued -- or that may be necessary -- to deal with the particular circumstances of the situation.

§ 3.1(b) **Above Maximum**

Agencies shall not set salaries above the maximum of the salary range for the job classification.¹³ The salary also shall not be set above the maximum of the recruitment range published in the vacancy announcement. These provisions do not apply to employees whose salaries are increased because they are temporarily acting in another position.

Existing employees' salaries may also become above the maximum due to salary structure adjustments or salary range revisions. If this occurs, existing employees' salaries will not decrease to the maximum of the salary range. Legislative increases also continue to apply, unless stated otherwise in the particular budget act that provided the increase. However, employees who are above the maximum cannot receive a discretionary salary increase without OSHR approval.¹⁴

¹³ 25 NCAC 01D .0102(a). As stated in § 2 of this Policy above, this restriction does not apply to positions that are exempt from the classification & compensation provisions of the State Human Resources Act, and Council of State members have statutory authority to set salaries above the maximum.

¹⁴ This includes in-range adjustments, temporary pay increases, and any other kind of discretionary increase actions. It does not include Legislative Increases and Longevity.

Pay Administration Policy (cont.)

§ 3.2. Criteria That Must Be Met Within the Agency to Begin the Process

§ 3.2(a) Request from Management to Agency HR Staff

To begin the salary setting process, agency management should make a request to agency HR staff, following the agency standard operating procedures and agency forms. Each agency should develop necessary procedures and forms needed to document actions. These procedures and forms should include, but not be limited to, how to document agency action justification and how to address budgetary limitations.

§ 3.2(b) Limits on In-Range Adjustments if Active Performance/Discipline

If an employee, in the same position, has an active disciplinary action or overall performance that was most recently documented as not meeting expectations, that employee is not eligible for in-range increases. This ineligibility is temporary and lasts only until the disciplinary action becomes inactive and performance once again reaches a “meet” or “exceed expectations” level. Any temporary ineligibility under this section does not travel with the employee if he or she transfers to a different position.¹⁵

§ 3.3. Step-by-Step Process for Setting Pay

Agency staff must follow the steps below to set salaries and determine pay increase amounts.

§ 3.3(a) Step One: Baseline Salary Calculator

Agency staff should begin making pay decisions by using the Baseline Salary Calculator, which is a traditional formula based on a person’s experience and education above the minimum requirements for the job classification. (The Baseline Salary Calculator is a worksheet embedded in **Form SAL**.) In the documentation for the salary action, the agency must document the Baseline Salary Calculator’s result (the “**preliminary baseline salary**”).

¹⁵ Discretionary pay increases are those funded with agency dollars and do not include a legislative increase, legislative actions such as the adoption of a step plan, and do not increase salary range revision or salary structure increases provided that other similarly situated employees receive the increase. If an agency has written appraisals for probationary employees, this may also be the basis for withholding discretionary increases provided to similarly situated probationary employees.

Pay Administration Policy (cont.)

The Baseline Salary Calculator provides that salaries shall first be set at the minimum of the salary range if the employee's experience, training, and education meet the requirements of the job classification specification. Then, agency staff add 5% of the salary range's minimum for each qualifying year of directly related experience, training, and education above the minimum recruitment standards set out in the job classification specification. This calculator should be used in calculating preliminary baseline salaries for new hires and for existing employees' promotions, in-range increases, reclassifications, reinstatements, and lateral transfers.¹⁶

The Baseline Salary Calculator provides the first step for determining a salary within the range. The preliminary baseline salary from the Baseline Salary Calculator is not the "qualifying salary" for an employee. Instead, the preliminary baseline salary is a starting point. Agency staff may determine employees or new hires should receive a higher or lower salary based on the application of the pay factors beyond education and experience. The next steps in the process involve consideration of factors (like budget limitations and equity) that may adjust salaries above or below the Baseline Salary Calculator level.

§ 3.3(b) **Step Two: Pay Factors**

After the Baseline Salary Calculator, the agency must consider pay factors that are established by OSHR under this Policy. Pay factors are used to evaluate whether the figure from the Baseline Salary Calculator is appropriate. The proposed salary may be adjusted based on documented consideration of the pay factors.

Documentation

In the documentation for the salary action, the agency must document how pay factors were considered. The pay factors are documented as part of **Form SAL**. Agencies should establish mechanisms to track and audit how pay factors are applied across a work unit, division, or agency.

¹⁶ For demotions or reassignments, see the Demotion or Reassignment Policy.

Pay Administration Policy (cont.)

The Five Pay Factors

The pay factors adopted under the Policy are listed below. Agencies can only consider the pay factors listed below unless OSHR gives approval to utilize other pay factors that may be warranted for a specific position or situation. Pay factors must be consistently applied for similarly situated employees.

The first two pay factors must be considered in all situations.

FOR ALL ACTIONS ASSESS: Pay Factor # 1, Budget Resources

This pay factor measures the proposed salary against the funding available. The availability of funds may limit an agency's ability to pay above a certain salary. Budget resources are allocated for salaries according to the organization's business need and funding availability. Salaries are limited by the funding in the agency's budget.

FOR ALL ACTIONS ASSESS: Pay Factor # 2, Internal Pay Equity

This pay factor is a fairness criterion that takes into consideration the proximity of one employee's salary to the salaries of others who have comparable levels of education, certifications, and experience; duties and responsibilities; productivity; and knowledge, skills, and abilities. This factor also considers salary compression, criticality of the position to the mission of the unit, and other organizational factors.

Pay equity is of utmost importance and is the responsibility of each agency. It is the agency's responsibility to respond to any potential equity issues and to avoid exacerbating any existing salary inequity.¹⁷ Each agency is responsible for maintaining pay equity within the agency. If a potential equity issue is created, the agency's proposed salary action must also contain a written plan approved by the Agency HR Director that addresses how the

¹⁷ An Administrative Code rule on horizontal transfers currently defines "internal salary inequity" as existing "when an employee's salary is 10 percent above or below" similarly situated employees. 25 NCAC 01D .0913(a). However, under federal and state law, there is no safe harbor for differences smaller than 10 percent. Indeed, there have been cases in the past where employers' pay differences were held discriminatory in particular circumstances, even though those differences were smaller than 10 percent.

Pay Administration Policy (cont.)

agency will adjust similarly situated employees' salaries impacted by the employee's salary decision when funding becomes available to address equity.¹⁸ The agency must then implement the action plan as documented. Agencies must also document plans if a proposed salary action for an employee will result in the employee being paid less than similarly situated employees. These action plans may be reviewed by OSHR.

Generally, the salary for an employee should be equitable relative to other similarly situated employees. "Similarly situated employees" means employees in the same job classification or in closely related job classifications at the same agency who have comparable levels of education and experience; duties and responsibilities; productivity; and knowledge, skills, and abilities.¹⁹

Generally, agencies should also seek to avoid pay compression. "Pay compression" occurs when the pay of one or more employees are very close to the pay of more trained and experienced -- but otherwise similarly situated -- employees performing the same duties and responsibilities in the same job at the same agency. Pay compression also occurs when the pay of one or more employees are very close to the pay of those in higher level jobs, such as managerial positions. In some cases, funding differences or other neutral factors may make pay compression unavoidable.

If the first two factors, together with the Baseline Salary Calculator, support the agency's recommended salary, the next three factors need not be reviewed. However, it can be helpful to analyze pay factors 3, 4, and 5 in many situations. Agencies are always free to analyze the following factors in any situation.

ASSESS AS NEEDED:

Pay Factor # 3, Distinguishing Specific Experience and Skills

This pay factor accounts for distinguishing differences in directly related knowledge, skills, abilities, duties, and responsibilities acquired through specific experience. This factor should be considered if the quality of the applicant or employee's experience might have more weight than the number of years of experience listed in the Baseline Salary Calculator.

¹⁸ See Section 3.3(e) of this Policy for more details on documentation.

¹⁹ Trainees and employees exempt from requirements of this Policy are not "similarly situated" for purposes of this definition.

Pay Administration Policy (cont.)

ASSESS AS NEEDED:**Pay Factor # 4, Specialized Education, Licensures, and Certifications**

This pay factor accounts for any education, licensures, or certifications that are relevant to the duties listed in the job description, add value to the position, and are in addition to the required minimum education and experience. These skills, licensures, or certifications must be either identified in the job posting's minimum or preferred qualifications or documented in the hiring process.

ASSESS AS NEEDED:**Pay Factor # 5, Recruitment/Retention Issues Specific to Market**

This pay factor analyzes external issues related to the position which may warrant higher salaries being paid either to new hires or to existing staff. It includes the current dynamic market for the specific position and industry. Situations like special assignments and geographic factors are also addressed under this pay factor. Geographic differentials affecting the entire salary range should be considered under the separate Geographic Differential Policy.

§ 3.3(c) Step Three: Measure Against the Quartile Descriptions

After any adjustments from application of the pay factors, the next step is to review the description for the quartile that contains the agency's proposed salary. (The quartile descriptions are listed above in § 1.5 of this Policy.) At this stage, agency staff should confirm that the qualifications and capabilities listed in the relevant quartile description match the hiring process documentation for the candidate. (For new hires, this documentation would include the application. For existing employees receiving a salary increase, this documentation would include all the material the agency has generated to establish why the employee's salary should be increased.)

This review is mandatory for any proposed salary in Quartiles 3 or 4. It is optional for any proposed salary in Quartile 1, in Quartile 2, or at the midpoint. Where mandatory, Agency staff must document how the quartile descriptions were applied.

When OSHR reviews agencies' actions, OSHR will use the quartile descriptions as a standard to measure how the agency documentation of the candidate's qualifications compares to the proposed salary.

Pay Administration Policy (cont.)

§ 3.3(d) **Step Four: Flexibility Authorization and (If Applicable) OSHR Approval**

Introduction to Flexibility Authorizations

Statutes initially provide authority for job classification and salary administration to OSHR. N.C.G.S. § 126-3(b)(4)-(5). By statute, OSHR is responsible for entering into delegation or decentralization agreements (“flexibility authorizations”) for agencies to instead perform these actions. N.C.G.S. § 126-3(b)(4). Pursuant to these statutes, OSHR offers flexibility authorization agreements to agencies. Under these flexibility authorizations, OSHR has transferred salary-setting authority to agencies in most circumstances. The great majority of salary actions are now done at the agency level, rather than at OSHR.

Most agencies will work under a standard flexibility authorization. In particular circumstances, agencies may have flexibility authorization agreements that modify the standard flexibility authorization.

Procedure for This Step

In Step Four of the salary administration process, the agency must ensure that the action is within the authority delegated to the agency under OSHR’s flexibility authorizations. If outside the delegated authority, the agency must under state law have OSHR approval to complete the proposed salary action. N.C.G.S. § 126-3(b)(6). The precise situations where the agency must receive OSHR approval are listed in the agency’s flexibility authorization agreement.

Documentation

OSHR will make available a form (**Form SAL**, Step 4) that each agency can use as a guide to its flexibility authorization. Agencies should establish mechanisms to track and audit their use of flexibility authorizations.

§ 3.3(e) **Step Five: Support the Action with Documentation and Enter the Documentation in the System of Record**

Agencies must generate a position-related justification that supports the salary. Complete, accurate and compelling documentation is a best practice and is required to demonstrate compliance, legal defensibility, and fiscal responsibility. Therefore, agencies must prepare and keep thorough supporting materials for each salary decision, including

Pay Administration Policy (cont.)

specific details of the process used to determine salary. These supporting materials must be placed in the system of record designated by OSHR.

To document the decision-making process, agencies are required to use a worksheet (**Form SAL**) that has been developed by OSHR. Form SAL must be included in the documentation for each salary action in the OSHR-determined system of record. (For example, in the HR/Payroll system as of 2022, the Form SAL Word document should be attached to the PCR for each action.) For actions that require OSHR approval, Form SAL replaces the justification memo that was required under previous OSHR policies and guidelines.

Agencies may also supplement Form SAL with agency-specific worksheets. When the agency uses other exercises or documents (such as inbox exercises, reference checks that discuss higher qualifications, or tests) to support the salary recommendation, these materials must be retained by the agency, and a short summary or the results of those exercises or documents should be referenced in Form SAL.

In addition to maintaining documentation in agency files, action notes must be placed on actions in the HR/Payroll system. Earned experience and education (total relevant experience) also must be documented in the HR/Payroll system.

It is especially important to document the agency's consideration of internal pay equity, which is one of the pay factors. If a salary would not be equitable to other similarly situated employees, the action must be approved by the Agency HR Director. The agency must ensure that all outliers are documented clearly. The agency must document the actions it will take to resolve the discrepancy. If any comparisons have been eliminated from review, the agency should include in the documentation the rationale behind the decision to eliminate that comparison.

State law instructs OSHR to rescind flexibility authorizations in the case of noncompliance with established Commission policies and rules. N.C.G.S. § 126-3(b)(5),(8). Statutes also instruct that OSHR should determine compliance through "routine monitoring and [a] periodic review process." N.C.G.S. § 126-3(b)(8). Therefore, OSHR will conduct recurring audits of agencies' salary administration documentation, provided in the system of record, and OSHR may also request additional documentation in specific cases.

Pay Administration Policy (cont.)

§ 3.4. Exception Requests

In addition to the situations where OSHR's approval is required because an action would be beyond the scope of a flexibility authorization, the Commission has granted OSHR authority to grant exceptions and variances from this Policy and from the rules of the Commission. 25 NCAC 01A .0104.

Only with the prior approval of the State Human Resources Director and in specific cases which involve circumstances such as severe labor market conditions or extraordinary qualifications will salaries be considered which exceed the limits of this policy.

These exceptions and variances require written findings of fact in which the State Human Resources Director (or designee) concludes that the granting of the exception or variance is necessary to promote efficiency of administration and provide for a fair and reasonable system of personnel administration. The findings of fact set forth fully the circumstances and need for the exceptions and/or variances granted. 25 NCAC 01A .0104(b). Exceptions are reported by OSHR to the Commission at its next meeting. 25 NCAC 01A .0104(c).²⁰

As a result, requests for pay or salary exceptions or variances to policy or rule are only allowed with prior approval of OSHR, and these written requests require submission through established procedures.

§ 3.5. OSHR Process for Approvals, Exceptions, and Variances

OSHR will provide agencies with a process and methodology for submitting documentation to OSHR. There are two situations in which documentation would be sent to OSHR:

- **Approval**, when OSHR is asked to review and pre-approve an action that is outside the scope of an agency's flexibility authorization, before the action takes place. Approvals are issued under N.C.G.S. § 126-3(b)(6).
- **Exceptions or variances**, when OSHR is asked to review and authorize a proposed category of actions where Commission policies and rules would not apply at all, or would apply only in part. "Exception" and "variance" have the same meaning. Exceptions and variances are authorized by 25 NCAC 01A .0104.

²⁰ If an exception is granted within five days of a Commission meeting, it may be reported at the following meeting. 25 NCAC 01A .0104(c).

Pay Administration Policy (cont.)

For approvals of actions beyond an agency's flexibility authorization under N.C.G.S. § 126-3(b)(6), OSHR will consider the following criteria in its review:

- Whether the documentation demonstrates that the employee/applicant matches the qualifications and capabilities listed in the quartile description.
- Appropriate application across state agencies.
- Whether the policy steps were followed.
- Whether the job-related justification and documentation reasonably demonstrate the reasons for this salary decision.
- Whether expanded recruitment efforts were undertaken, beyond posting the position (such as posting in additional forums beyond the OSHR website; re-opening the posting for additional time; partnering with internal or external groups to publicize the posting; and reevaluating any mandatory qualifications, beyond the ones stated in the job classification, to avoid unnecessary exclusion of candidates who could perform the job).
- Whether there are any additional tools available to address the issue.

For exception or variance requests to policies or rules under 25 NCAC 01A .0104, OSHR will consider:

- The circumstances and need for the exception or variance
- Whether granting the exception or variance is necessary to promote efficiency of administration
- Whether granting the exception or variance is necessary to provide for a fair and reasonable system of personnel administration.²¹

OSHR may grant approvals, exceptions, and variances only in writing. For purposes of this Policy, "in writing" includes not only paper, but also written emails and approvals in automated systems like SmartSheet. Spoken remarks by OSHR staff are not approvals, exceptions, or variances under this Policy.

²¹ The criteria for exception or variance requests are established in 25 NCAC 01A .0104(b).

Pay Administration Policy (cont.)

§ 4. Particular Situations

§ 4.1. Part-Time Salary Rates

Employees with a part-time permanent appointment shall be paid the equivalent of a full-time salary rate prorated for the number of hours worked per week.

§ 4.2. Employee Movement Between Positions

Employees transferring from a career-banded job classification to a graded job classification should be treated as a Band to Grade Transfer action and the salary established using this Policy. When employees are demoted or reassigned to a lower class, refer to the Demotion or Reassignment Policy.

§ 4.3. Trainees

Some job classifications often require knowledge or skills that are not available in the existing labor pool or cannot be learned in a short period. To accommodate this, a trainee progression is established where appropriate to provide a uniform guide for equitable employment and compensation of trainees in a specific job. The trainee progression:

- Defines the recruitment standards, basic skills and related knowledge needed;
- Specifies a duration which approximates the normal time for training needed for applicants with potential to meet the full requirements of the position; and
- Provides competitive salary progression rates that are spread over the training period.

The salary for a trainee must be at the specified minimum rate of the trainee range, unless the employee possesses sufficient additional education or experience to qualify for a higher rate. Trainee salary increases will be governed by § 5.3 below.

An employee may also be assigned to a job classification to work against a regular classified position.

Pay Administration Policy (cont.)

§ 5. Salary Increases

§ 5.1. Salary Increases for Non-Probationary Employees

There are several actions (such as in-range adjustments, reclassifications, promotions, acting pay, and special salary adjustments for retention) to increase salaries for existing employees. Under these actions, employees' salaries may be increased for any of the following reasons:

- **Equity**, when employees in the same position/branch/role/competency are performing very similar work with a similar level of competence to those who have a higher pay rate, and the pay discrepancy has no documented justification, or to alleviate pay compression. See Pay Factor # 2 for further details.
- **Labor Market**, when an employee's salary is less than the pay for comparable positions in the labor market. See Pay Factor # 5 for further details.
- **Job change**, when an employee has assumed higher-level duties or there have been changes in the variety and scope of duties.
- **Employee retention**, when the following are all true:
 - The employee has a documented offer for a comparable position (i.e., not an obvious promotion) outside of the agency. (See note below.)
 - The employee has given that documentation to the manager.
 - The employee has a "meets" or higher on their most recent annual performance appraisal and no active written discipline.
 - The employee has skills or knowledge that would be difficult to replace.

Note: The documentation showing the offer does not need to be an offer letter. (An offer letter is often issued at the very end of the hiring process, after the agency has already lost the employee.) To show the offer, agencies may accept a copy of the posting and an attestation from the employee. Generally, any documentation showing the offer for the position is sufficient to show an employee retention need.

For any increase under any type of employment action, the agency must complete Steps 1 to 4 in the salary determination process, as set out in § 3.3 of this Policy. The agency also must complete the documentation described in § 3.3 of this Policy.

Pay Administration Policy (cont.)

§ 5.2. **Salary Increases for Probationary Employees**

Under this Policy, agencies may provide salary increases to probationary employees by utilizing any of the salary actions listed in § 5.1 above. If agencies choose to provide salary increases to probationary employees, they must follow all the process steps listed in § 5.1 above. In addition, the agency should take special care to consider whether the action is necessary before the end of the probationary period. The agency should also consider whether the increase should be in the place of any increase that might occur at the end of the probationary period under § 5.4 of this Policy below.

§ 5.3. **Salary Increases for Trainees**

While in a trainee classification, the following shall occur:

- An evaluation of the employee's performance and progress on the job shall be made at frequent intervals. See the Performance Management Policy located in Section 10 of the State Human Resources Manual for additional information related to the frequency of performance reviews.
- Trainee salary adjustments may be provided at specific intervals; however, increases are not automatic.
- Trainee salary adjustments shall not be awarded if an employee has an unsatisfactory performance rating. See the Performance Management Policy located in Section 10 of the State Human Resources Manual for additional information on how to address poor performance. Eligibility for trainee salary adjustments shall resume once the employee's performance becomes acceptable or obtains a Meets Expectations or Exceeds Expectations rating.
- Once the trainee meets the minimum knowledge, skill, and ability requirements or competently completes the trainee period with a satisfactory performance rating, the salary shall be increased to the minimum of the range for the regular job classification.

The above applies to officially recognized trainee progressions. OSHR also works with agencies to establish salary progressions when there is not an established trainee classification.

Pay Administration Policy (cont.)

§ 5.4. **Salary Increases at End of Probationary Period**

When an employee is given a permanent appointment after successful completion of the probationary period, the employee's salary may be increased by up to 5% or to a higher rate if conditions justify, consistent with the provisions of this Policy for in-range adjustments. For this increase, the agency must complete Steps 1 to 4 in the salary determination process set out in § 3.3 of this Policy, and the agency must complete the documentation described in § 3.3 of this Policy.

§ 6. **Salary Range Revisions, Special Rates, and Non-Standard Applications**

§ 6.1. **Salary Range Revisions**

§ 6.1(a) **Definition**

A salary range revision is any change in a salary range approved by the Commission and resulting from changes in the labor market. The revision may result in a change to the minimum and maximum, a change to the minimum only, or a change to the maximum only, along with a resulting change to the midpoint.

§ 6.1(b) **Salary Rates Above Standard Rates**

In addition, based on labor market demands, salary rates for some job classifications may be approved by the Commission above the standard rates.

§ 6.1(c) **Result of a Salary Range Revision**

This section applies either to wholesale salary structure adjustments under § 1.4 of this Policy or a specific salary range being revised under this § 6.1 of this Policy.

When a job classification is assigned to a higher grade or when the salary range changes due to changes in the labor market, if there are no performance or personal conduct issues involved for the employee:

- The employee's salary shall be increased to the minimum of the new range as soon as possible and within funding limitations.
- In this situation, the existing employee's salary must be increased to the range minimum before the agency brings on any new employees in the same job

Pay Administration Policy (cont.)

classification who are similarly situated (including but not limited to having the same experience) and who would be paid more by being paid at the range minimum.

- Further salary increases beyond the minimum of the range may be given in accordance with the provisions set out above in this Policy. The agency must complete Steps 1 to 4 in the salary determination process, as set out in § 3.3 of this Policy. The agency also must complete the documentation described in § 3.3 of this Policy.

If funds are not available to implement a salary range revision, the increase to the minimum shall be given from the first available funds and may be made retroactive to the effective date of the salary range revision. If the increase is denied because of performance or personal conduct, the increase may be given on a current basis if/when the issue is resolved.

§ 6.1(d) **Special Salary Range Situations**

Salary Range Revision Within 24 Months of a Reduction

If an employee has been reduced to a lower salary grade through demotion, reassignment, reallocation, or salary range revision, but without a corresponding reduction in salary, and the employee's position is later assigned to a higher grade as a result of salary range revision, the number of grades in the original reduction shall be considered to have been compensated and shall not be considered in the above salary setting procedure. If the reduction in grade occurred as much as twenty-four months previously, the agency may give consideration to granting a salary increase within the provisions of this policy. The need to maintain equity of salaries within the work unit must be a major consideration.²²

Salary Range Revision to a Lower Grade

When a job classification is assigned to a lower grade, the employee's grade may be allowed to remain at the current level so long as the employee continues to occupy the same position or is in the same job classification; however, the grade of the position must be

²² If the employee is to receive a performance salary increase (interpreted to mean cost-of-living adjustment, career growth recognition award or performance bonus) on the same day as this type of salary range revision, the increase shall be given before a range revision increase is considered.

Pay Administration Policy (cont.)

reduced, and the employee will function in a “work against” mode. Once the position is vacated, it must be filled at the lower grade level.

§ 6.2. Non-Standard Pay Practices

In special situations, OSHR may establish a non-standard application of a market-driven salary range for specific job classifications or pay grades.²³

For job classifications, non-standard application may be appropriate when unique labor market conditions are impacting recruitment and retention of a job classification within an agency. For example, there may be a situation where less than 75% of the range is needed because of external labor market conditions, or there may be a hyper-competitive market where the top quartiles of the range are needed for competitive pay. Additionally, non-standard applications may exist for a job classification that has a step plan or falls within another pay system driven by state statute. Job classifications that are approved by OSHR for such a non-standard application may utilize a portion of the range for recruiting purposes.

If an agency has a documented job-related justification, the agency may request from OSHR the approval of a non-standard application for a job classification, which will provide additional salary flexibility. Designations will be made on a case-by-case basis. The application must include documentation that supports the request. Approval for a non-standard application of a job classification lasts for two years, at which point the agency can approach OSHR again to seek re-approval.

§ 7. Definitions

For purposes of this policy, the terms below mean the following:

²³ 25 NCAC 01D .0102(b)-(c).

Non-standard applications may include the special minimum rate concept found in prior policies. A special minimum rate is a substitute minimum rate above the minimum of the salary range when critical recruitment or retention problems are recognized.

Non-standard applications may also exist where state statute dictates an adjustment to an established pay range. An example would be those pay grades that start higher than the market-defined rate due to Session Law 2018-5, Senate Bill 99, which approved all employees to be paid at least a \$15 living wage.

Pay Administration Policy (cont.)

Agency - Defined in footnote 2 of this Policy in Section 1.3 above.

Approval - Defined in Section 3.5 of this Policy above.

Commission - The North Carolina Human Resources Commission.

Exception - Defined in Section 3.5 of this Policy above.

Minimum - The lowest point in a salary range.

Midpoint - The point in each salary grade that is halfway between the minimum and the maximum.

Maximum - The highest point in a salary range.

OSHR - The North Carolina Office of State Human Resources.

Pay compression - Defined in Section 3.3(b) of this Policy above.

Pay factors - The factors established by OSHR to evaluate a proposed salary. These factors are identified and discussed in Section 3.3(b) of this Policy above.

Probationary increase - An increase from the initial salary at the time the employee successfully completes the probationary period.

Recruitment standard - The minimum qualifications required by the state for an appointment to a given job classification. These include the required knowledge, skills, and abilities, minimum education and experience, and any other special requirements such as certificates and licenses.

Salary range revision - Any change in a salary range approved by the Commission and resulting from changes in the labor market.

Pay Administration Policy (cont.)

Similarly situated employee - Defined in Section 3.3(b) of this Policy above.

Salary structure adjustment - A change to a salary range or job classification.

Variance - Defined in Section 3.5 of this Policy above.

§ 8. Responsibilities

OSHR is responsible for:

- Under the leadership of the Governor, establishing the state's compensation philosophy.
- The development and consistent administration of the compensation program, including pay administration.
- Reviewing information entered into the OSHR-designated state system of record, monitoring that information, and periodically reporting to agencies and other stakeholders de-identified summaries of that information, in order to ensure consistency across agencies and provide statewide metrics.
- Establishing supporting policies and ensuring state agency adherence to policy standards through oversight and technical assistance.
- Training agency subject-matter experts on pay administration.
- Consulting with agency staff on pay administration.
- Maintaining the e-mail and contact lists for HR leadership and subject matter experts.
- Responding to requests for salary action reviews when requested by agencies.
- Providing review and approval or denial of actions that are outside the scope of the agency's flexibility authorization.
- Developing flexibility authorizations.
- Monitoring and auditing agency adherence to flexibility authorizations.
- Communicating to agencies any concerns with the use of the flexibility authorization.
- As appropriate, limiting or restricting flexibility authorizations for any agencies that do not fully comply with this Policy.
- Auditing the documentation for pay decisions.

Pay Administration Policy (cont.)

Agencies are responsible for:

- Establishing procedures for identifying and determining the priority and fiscal feasibility of implementing pay decisions.
- Timely completing electronic forms related to this policy and entering documented actions into the OSHR-designated state system of record to ensure consistency across agencies and the ability to track agency and statewide metrics.
- Regularly monitoring internal pay equity and ensuring pay decisions in a fair and defensible manner.
- Monitoring turnover, recruitment, and other trends.
- Developing procedures for reviewing and monitoring agency pay administration practices.
- Training agency leadership and Human Resources staff in applying the pay administration process under this Policy.
- Signing and adhering to flexibility authorizations for the agency.
- Seeking adjustments to the flexibility authorizations, where appropriate.
- Sharing with OSHR when key pay administration staff have separated from the agency, and notifying OSHR if any part of the flexibility authorization should be temporarily suspended because of vacancies or leaves of absence.
- Alerting OSHR about staff changes in subject-matter areas.
- Developing consistent pay administration practices which align with the state compensation philosophy and pay administration policy.
- Administering and ensuring compliance with this policy within their agency. This includes making sure that pay decisions are consistent with Steps 1 to 4 described in this Policy and that decisions are fully documented.

§ 9. Miscellaneous Terms

§ 9.1. Effective Date and Duration

This Policy is effective June 1, 2022. It shall remain in effect until rescinded.

§ 9.2. Sources of Authority

This Policy is issued under N.C.G.S. § 126-4(1), (2), (3), and (6).

Pay Administration Policy (cont.)

§ 10. History of This Policy

Date	Version
April 14, 2022, effective June 1, 2022	First version. New policy developed from segments of several prior policies. (Where material was moved into this new policy, that material has been removed from the other policies.) Text revised to more clearly show how HR staff can use salary administration as a flexible tool to meet needs. Emphasis placed on agencies developing documentation to demonstrate the justification for salary administration decisions.