UC MERCED AUDIT AND ADVISORY SERVICES

January 30, 2017

To: Michael Reese – Vice Chancellor for Business and Administrative Services

Subject: Audit of Merit Pay Program

Ref: Report No. M17A002

At the request of the Chancellor, UC Merced Internal Audit has completed the audit of the Fiscal Year 2016 – 2017 Merit Pay Program. This report includes recommendations and management corrective actions for Human Resources. It also includes recommendations to be considered by the Chancellor's Cabinet.

During the audit, it became apparent that the Human Resources Compensation group worked many hours so merit pay increases were accurately applied retroactively. We would like to thank them for their help throughout the audit.

Todd Kucker

Todd Kucker
Director of Internal Audit

Attachment

cc Interim Senior Vice President Lohse
Chancellor Leland
Associate Chancellor Putney
Associate Vice Chancellor Powell
Manager Patino
UC Merced Campus Audit Committee

UNIVERSITY OF CALIFORNIA, MERCED
AUDIT AND ADVISORY SERVICES

Merit Pay Program
Report No. M17A002

January 30, 2017

Work completed by:
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Management Summary

During Fiscal Year 2016 – 2017, all UC locations are required to follow a merit-based pay program for non-represented staff employees. At UC Merced, the process of tying merit pay increases to annual evaluation results was completed during October 2016. At the request of campus leadership, Internal Audit has completed an audit of the merit pay program.

The purpose of the audit was to verify that merit increases were accurately applied based upon the parameters approved by the Chancellor's Cabinet in March 2016. The audit objectives were to:

- Determine whether employee eligibility requirements were correctly applied;
- Verify that employees received merit increases in line with the approved parameters; and,
- Review that approvals and other controls governing the process were effective.

From our audit testing, we concluded that the merit increase guidelines approved by the Chancellor's Cabinet were accurately applied to eligible staff employees. We verified that eligible employees received merit increases within the approved ranges. Overall, it appeared that the Human Resources Compensation group was very meticulous in verifying that approved merit increases were correctly applied to eligible employees.

During the audit, we identified areas for potential improvement. The following areas required management corrective actions that should be applied during the next round of merit pay increases:

- Reconciliation of division merit pools
- Senior Manager approval of employee merit increases

The following general observations should be considered before future merit increases but did not require management corrective actions:

- Use of merit pool available from employee turnover
- Consistency of merit increase strategies
- Process difficulties with time lapse before merit pay increases

The following report discusses the issues noted and our recommendations for improvement. The report also provides statistics and the overall results of the Fiscal Year 2016 – 2017 merit increases as the data supports our recommendations for potentially improving future merit pay programs.

Background

The UC President announced in late 2015 that all campuses and locations would be required to return to a merit-based pay for performance model for non-represented staff employees beginning fiscal year 2016 - 2017. The pay for performance program aligns individual employee objectives, milestones and targets with the university's goals.

In a pay for performance model, the goal is to improve employee and organizational performance by rewarding individual employee effort and contributions. Employees who meet the expectations of their jobs or perform above expectations receive an adjustment in salary based on that performance. Employees no longer receive automatic across-the-board salary adjustments.

The merit pay program applies to non-represented staff in career or partial-year career appointments; it excludes student employees and anyone covered by Academic Personnel policies. Wages for union-represented employees are governed by labor contracts and are not affected by this merit program. Also, members of the Senior Management Group (SMG) were excluded from the program.

The following guidance is from the Human Resources webpage.

"Only employees who met the following requirements are eligible for merit increases:

- Non-represented career or partial year career appointments as of March 31, 2016;
- Contract employees, where the contract exceeds 12 months in duration

Once your manager or supervisor determines your merit level, a merit increase will be determined using the parameters outlined on this chart. The amount of the merit award will vary according to your performance contributions and the available budget. Our program is supported by a limited budget provided by the campus and individual schools and departments. Every organization will be operating with the same 3 percent merit budget allocation. The fixed budget means that the actual merit increases will also be limited. The total of all employee increases within a department cannot exceed that organization's allocated budget.

2016 Merit Pay Matrix

Overall Performance Appraisal Rating	Corresponding Salary Increase
1 - Unacceptable Performance	0.00% Increase Permitted
2 - Partially Meets/Needs Improvement	0.00% to 2.00% Increase Permitted
3 - Meets Expectations	2.25% to 3.25% Increase Permitted
4 - Far Exceeds Expectations	3.50% to 6.00% Increase Permitted
Based on a 3.00% Salary Pool	

In March 2016 and in consultation with Human Resources, the Chancellor's Cabinet approved the parameters of this year's merit pay model. The Cabinet is comprised of 24 academic and administrative leaders from across the campus. The model is structured yet flexible. By employing a structured matrix model, overall performance ratings correspond to specified merit increases, thereby giving eligible staff both predictability and consistency across campus. Nonetheless, the model builds in a level of flexibility that allows managers to distinguish and reward high performers within a spectrum of ranges."

Employee performance evaluations for Fiscal Year 2015 – 2016 were completed during July through August 2016. Divisions then determined the merit increases for eligible employees during September 2016 which were set up in the "WebMerit" system in early October 2016. Merit increases were then retroactively applied for employees who received them for July through October 2016. The percentage increases were based upon the employee's salary as of July 1, 2016.

WebMerit is a UC systemwide application that automates and distributes many of the tasks associated with batch merit increases. The application provides for various permission levels (control point, department) for staff in departments given responsibility to view rosters and edit merit recommendations for staff eligible for increases. UC Merced Human Resources worked with representatives from all campus divisions to manage access to WebMerit and to verify that correct information was set up in the system.

Audit Objectives and Scope

At the request of campus leadership, Internal Audit has completed an audit of UC Merced's Fiscal Year 2016 - 2017 merit pay program, which was part of the annual audit plan. The purpose of the audit was to verify that merit increases were accurately applied based upon the parameters approved by the Chancellor's Cabinet. The audit objectives were to:

- Determine whether employee eligibility requirements were correctly applied;
- Verify that employees received merit increases in line with the approved parameters; and,
- Review that approvals and other controls governing the process were effective.

To review the merit pay program, we completed the following audit steps:

- Discussed merit increase procedures with Human Resources and with employees in divisions responsible for calculating merit increases and inputting data in the WebMerit system;
- Reviewed a sample of employees to verify that annual evaluation ratings used were accurate;
- Recalculated division 3% merit pools and verified that division merit increases did not exceed the pools;
- Utilized data analysis tools to review for merit increases which were not in line with the approved ranges;
- Reviewed how access was granted to the WebMerit system; and,
- Compiled statistics of the merit increase results to review for unusual results.

Some of the compiled statistics are presented in the next section as they provide insight into the strategies used by different divisions to allocate the division merit pools.

Overview of Merit Increase Results

Campus divisions were responsible for determining the merit increase percentages for eligible staff employees. Within some divisions this responsibility was further divided so that each Senior Manager or School Dean approved the pay increases of employees who ultimately reported to them. For example, the Provost's Office includes Senior Managers (Chief Information Officer, University Librarian) and School Deans. Each was responsible for reviewing and approving the merit increases for the staff employees in their respective departments.

Different campus divisions followed very different strategies for allocating the 3% division merit pools. The following tables provide an overview of the results broken down by Senior Manager and Dean. The data helps to provide explanation for our recommendations below.

Division 3% Merit Pools

For those staff employees determined to be eligible on March 31, 2016, the employees' salaries on July 1, 2016 were used to determine the eligible salaries by division. 3% of the eligible salaries by division were used to establish the merit pools. The following table shows the merit pools by division.

Table 1 - Merit Pool by Division

Division	*# of Eligible Employees*	*Eligible Employee Annual Salaries*	*3% Merit Pool by Division*
Business and Administrative Services	*134*	*$10,650,534*	*$319,516*
Planning and Budget	*19*	*$2,163,642*	*$64,909*
Office of the Chancellor	*34*	*$2,772,425*	*$83,173*
Development and Alumni Relations	*16*	*$1,300,556*	*$39,017*
Student Affairs	*205*	*$11,564,671*	*$346,940*
Provost/Executive Vice Chancellor:			
Provost's Office	*58*	*$3,770,312*	*$113,109*
Information Technology	*46*	*$4,186,731*	*$125,602*
Library	*6*	*$404,002*	*$12,120*
School of Social Sciences Humanities and Arts	*24*	*$1,509,338*	*$45,280*
School of Engineering	*28*	*$1,944,827*	*$58,345*
School of Natural Sciences	*39*	*$2,528,495*	*$75,855*
Total Provost/Executive Vice Chancellor	*201*	*$14,343,705*	*$430,311*
Office of Research	*48*	*$3,596,818*	*$107,905*
Total for campus	*657*	*$46,392,350*	*$1,391,771*

Breakdown of Annual Evaluation Ratings

The annual evaluations from Fiscal Year 2015 – 2016 were utilized for the merit increases. Staff employees were given the following overall ratings on their annual evaluations:

1 – Unacceptable Performance
2 – Partially Meets Expectations
3 – Meets Expectations
4 – Far Exceeds Expectations

The following table shows the breakdown of ratings received by eligible staff employees.

Table 2 - Breakdown of ratings received on the annual evaluations by eligible employees

	1 – Unacceptable Performance	***2 – Partially Meets Expectations***	***3 – Meets Expectations***	***4 – Far Exceeds Expectations***
% of Eligible Employees	*1%*	*4%*	*74%*	*21%*

95% of the eligible staff employees met or exceeded expectations. One difficulty for some divisions was that a large portion of their employees received 4 ratings which made them eligible for a merit increase of between 3.5% and 6%. As the merit pool for the division was 3%, there were not usually a sufficient number of employees who received 1 and 2 ratings to make it easier to give these larger increases. As a result, divisions with fewer eligible staff employees were sometimes forced to give employees with 4 ratings merit increases between 3.5% and 4%.

Allocating the Division 3% Merit Pools

All divisions utilized spreadsheets to calculate merit increases for eligible employees. Employees in each division were granted access to the WebMerit system. These employees then input the calculated merit increases for the employees from their division.

During the process, the Human Resources Compensation group verified that divisions did not exceed their merit pools. The following data is from the final merit increase results reviewed by Human Resources.

Table 3 - Merit Pool Applied by Division

Division	*3% Merit Pool by Division*	*Actual Merit Pool Applied*	*Exceeded/ (Short) by division*
Business and Administrative Services	*$319,516*	*$306,513*	*($13,003)*
Planning and Budget	*$64,909*	*$64,771*	*($138)*
Office of the Chancellor	*$83,173*	*$78,868*	*($4,305)*
Development and Alumni Relations	*$39,017*	*$39,898*	*$881*
Student Affairs	*$346,940*	*$334,301*	*($12,639)*
Provost/Executive Vice Chancellor:			
Provost's Office	*$113,109*	*$116,449*	*$3,340*
Information Technology	*$125,602*	*$116,659*	*($8,493)*
Library	*$12,120*	*$13,130*	*$1,010*
School of Social Sciences Humanities and Arts	*$45,280*	*$45,302*	*$22*
School of Engineering	*$58,345*	*$55,859*	*($2,486)*
School of Natural Sciences	*$75,855*	*$72,621*	*($3,233)*
Total Provost/Executive Vice Chancellor	*$430,311*	*$420,021*	*($10,290)*
Office of Research	*$107,905*	*$107,736*	*($168)*
Total for campus	*$1,391,771*	*$1,352,109*	*($39,662)*

While divisions were not obligated to fully apply their merit pools, the final results show that the campus was short of fully utilizing the 3% merit pool by $39,662. One division exceeded its 3% merit pool while many divisions were short of fully utilizing the 3% division pools. As the merit pools were not fully utilized, the average increase for employees ended up being 2.91% rather than 3%.

Per discussions with the division employees responsible for setting up increases in WebMerit, there were sometimes difficulties in calculating the division's 3% pool. As a result, they were not aware that they had not fully utilized the division's merit pool.

Employee Turnover and the Benefit to the Division's Remaining Employees

Eligible employees for the merit pay program were determined on March 31, 2016 while the merit increases were finally assigned in early October 2016. During this six month period, sixty eligible employees left the campus. When an eligible employee left, the 3% of their salary was included in the division's merit pool and paid out to other employees in the division. The following table shows the number of eligible employees who separated during the period and the resulting benefit for the remaining employees in the divisions.

Table 4 – Average Merit Increases for Remaining Employees after Employee Turnover

Division	*# of Eligible Employees Separated*	*% Turnover during 6 Months*	*Merit pool for separated employees*	*Average % Merit Increase for Remaining Employees*	*Average Annual Merit Increase*
Business and Administrative Services	*13*	*9.7%*	*$32,360*	*3.20%*	*$2,533*
Planning and Budget	*3*	*15.8%*	*$10,523*	*3.57%*	*$4,048*
Office of the Chancellor	*6*	*17.7%*	*$14,591*	*3.45%*	*$2,817*
Development and Alumni Relations	*0*	*0%*	*$0*	*3.07%*	*$2,494*
Student Affairs	*24*	*11.7%*	*$29,125*	*3.16%*	*$1,847*
Provost/Executive Vice Chancellor:					
Provost's Office	*3*	*5.2%*	*$2,303*	*3.15%*	*$2,117*
Information Technology	*6*	*13%*	*$20,944*	*3.34%*	*$2,916*
Library	*0*	*0%*	*$0*	*3.25%*	*$2,188*
School of Social Sciences Humanities and Arts	*0*	*0%*	*$0*	*3.00%*	*$1,888*
School of Engineering	*0*	*0%*	*$0*	*2.87%*	*$1,995*
School of Natural Sciences	*2*	*5.1%*	*$3,150*	*3.00%*	*$1,963*
Total Provost/Executive Vice Chancellor	*11*	*5.5%*	*$26,397*	*3.12%*	*$2,211*
Office of Research	*3*	*6.3%*	*$4,967*	*3.14%*	*$2,394*
Campus	*60*	*9.1%*	*$117,960*	*3.18%*	*$2,265*

Based upon the timing of separations, some divisions greatly benefited from the merit pool not used by these former employees. For example, the average percentage increase for the Planning and Budget division was larger than the percentage increases received by employees who received a Far Exceeds Expectations rating in the School of Natural Sciences.

If the merit pool resulting from all eligible employees who separated between April 1 and October 5, 2016 had been pooled and applied evenly across all divisions, the average salary increase for all eligible employees would have been 3.18%. If all merit pools would have been fully utilized (see table 3) and the merit pool savings evenly applied, the average merit increase would have been 3.28% for all remaining eligible employees. Overall, some divisions benefited greatly from having a higher percentage of employee turnover which resulted in large disparities among divisions. Divisions with more salary savings were able to give larger merit increases to employees whose performance far exceeded expectations.

Strategies for Assigning Merit Increases

Senior Managers and School Deans used very different strategies for assigning the merit increases to the employees who report to them. A couple divisions had a large range of merit increases while other divisions gave the majority of the eligible employees a 3% increase. The following table shows the breakdown of percentage increases given to eligible employees.

Table 5 - Merit Increase Percentages Assigned/Approved by Senior Manager or Dean

% Merit Increases	*0 - .9%*	*1- 1.9%*	*2- 2.9%*	*3%*	*3.1- 3.9%*	*4- 4.9%*	*5- 5.9%*	*6%*
Business and Administrative Services	*3%*	*3%*	*30%*	*14%*	*36%*	*2%*	*6%*	*6%*
Planning and Budget	*6%*	*6%*	-	*56%*	-	-	*32%*	-
Office of the Chancellor	*4%*	-	-	*71%*	-	-	*25%*	-
Development and Alumni Relations	*6%*	-	*25%*	*31%*	*13%*	*25%*	-	-
Student Affairs	*1%*	*2%*	-	*74%*	*23%*	-	-	-
Provost's Office	-	-	*7%*	*58%*	*31%*	*4%*	-	-
Information Technology	*2%*	-	*10%*	*38%*	*30%*	*5%*	*15%*	-
Library	-	-	-	-	*100%*	-	-	-
School of Social Sciences Humanities and Arts	-	*8%*	-	*38%*	*42%*	*12%*	-	-
School of Engineering	*4%*	-	*25%*	*28%*	*39%*	-	*4%*	-
School of Natural Sciences	*3%*	-	*41%*	*5%*	*51%*	-	-	-
Office of Research	-	-	*9%*	*56%*	*31%*	*4%*	-	-
Campus	*2%*	*2%*	*12%*	*46%*	*30%*	*3%*	*4%*	*1%*

The table shows that 46% of the eligible employees received a 3% merit increase, which is same as the "across the board" annual increase received by staff employees during recent years. Some campus units did not give merit increases larger than 3.25% or 3.75%. As 95% of employees met or far exceeded expectations on their annual review (see Table 2 above), the parameters caused many divisions to allocate the majority of merit increases around 3%. 76% of eligible employees received merit increases between 3% and 3.9%.

Merit Increases for Employees who Far Exceeded Expectations

One rationale for a merit pay program is to provide larger rewards for high-achieving employees. Different Senior Managers and School Deans also utilized very different strategies in applying merit increases to employees who received the highest ratings on their annual evaluations. The following table provides an overview of the merit increases received by employees whose performance far exceeded expectations.

Table 6 - "Far Exceeded Expectations" (4 rating on Annual Evaluation) Increases

Division	*Range of Merit Increase %'s*	*Range of Annual Increases*
Business and Administrative Services	*3.5% - 6%*	*$2,993 - $12,360*
Planning and Budget	*5%*	*$3,090 - $10,558*
Office of the Chancellor	*5%*	*$2,483 - $9,800*
Development and Alumni Relations	*4.25% - 4.5%*	*$2,731 - $4,084*
Student Affairs	*3.75%*	*$1,551 - $8,542*
Provost's Office	*3.5% - 4.5%*	*$1,873 - $3,920*
Information Technology	*3.5% - 5.5%*	*$2,777 - $6,500*
Library	*N/A*	*N/A*
School of Social Sciences Humanities and Arts	*4%*	*$2,701 - $3,056*
School of Engineering	*5%*	*$2,353*
School of Natural Sciences	*3.5%*	*$1,653 - $4,316*
Office of Research	*3.5% - 4%*	*$1,766 - $6,201*
Campus Increases for Employees with 4 Ratings	*3.5% - 6%*	*$1,551 - $12,360*

The merit increases received by employees with the highest ratings was very dependent upon which division they were in and their salaries before the increases. The largest merit increases these employees could receive in some divisions was 3.5 - 4% while employees in other divisions could receive 5% or 6%.

Conclusion

From our audit testing, we concluded that the merit increase guidelines approved by the Chancellor's Cabinet were accurately applied to eligible staff employees. We verified that eligible employees received merit increases within the approved ranges. Overall, it appeared that the Human Resources Compensation group was very meticulous in verifying that approved merit increases were correctly applied to eligible employees.

As an aside, we also observed some noteworthy behavior by department managers. The way the merit program was put together had the potential to create difficulties for employees in lower pay scales. For example, if a highly compensated employee received a Far Exceeds Expectations rating and was allocated a merit increase over 3.5%, it often meant that a larger number of lower paid employees would have to make up the difference by receiving a merit increase of less than 3%. We noted examples where managers requested that they be given lower merit increases so their subordinates could receive larger percentage merit increases.

During the audit, we identified areas for potential improvement. The following areas required management corrective actions that should be applied during the next round of merit increases:

- Reconciliation of division merit pools
- Senior Manager approval of employee merit increases

The following general observations should be considered before future merit increases but did not require management corrective actions:

- Use of merit pool available from employee turnover
- Consistency of merit increase strategies
- Process difficulties with time lapse before merit pay increases

Observations and Management Corrective Actions

1. Reconciliation of division merit pools

We noted that many divisions did not fully utilize the 3% merit pools available to their divisions (see Table 3). While divisions were under no obligation to fully allocate their 3% merit pools, the issue is that most divisions believed they had fully utilized their 3% pools but had not properly calculated the pools.

During the audit, we discussed the merit increase processes with employees from Human Resources and with employees in the divisions who were responsible for calculating the division's merit increases and inputting the merit increases in WebMerit. Different employees explained their uncertainty regarding the exact merit pool available for their divisions. There was uncertainty regarding whether WebMerit included all of their divisions' eligible employees as of March 31, 2016. Also, there was uncertainty whether employees whose salaries were paid by grants (as opposed to state funds) should be considered in a different manner.

Human Resources completed a final review of the merit increases to verify that divisions did not spend more than the 3% merit pools available to them. Human Resources only followed up with divisions if changes were necessary as the division exceeded their 3% merit pools.

We also noted an instance where it appears that a division exceeded their 3% merit pool. In this division, there was disagreement regarding which salary should be used for one employee. The employee received large non-merit based salary increases during June and July 2016. When Human Resources required that the employee's merit increase be based upon the salary as of July 1, 2016, the employee complained that the merit increase should be based upon the new salary that began in late July 2016. To solve this disagreement, during September 2016, Human Resources recommended that a larger merit increase be added to the salary increase that took place during July 2016. The employee signed a backdated offer letter with a larger salary to make it appear that the merit pay increase had already been included in the July pay increase. With the backdated offer letter, it is difficult to determine whether (and by how much) the division exceeded their 3% merit pool. Backdating documents affects the audit trail and is a poor management practice. We recommend that it be avoided.

During future merit increases, we recommend that procedures be set up to communicate the exact merit pools available to divisions. Human Resources and the divisions should agree upon the exact amounts early in the process. Procedures should be set up to identify differences and communicate back to divisions when they have overspent or underspent the available merit pools. This reconciliation could be completed by Human Resources, the Budget Office, or another department with access to the merit increase information.

Management Corrective Action

During future merit increases, Human Resources will work with the Budget Office to set up processes to communicate the exact merit pool for each division, reconcile the final amounts, and communicate the results to divisions. This will enable divisions to verify that the results were in line with their expectations.

These processes will be set up by the time of the next merit increase.

2. Senior Manager approvals of employee merit increases

In each division, an employee was granted access to WebMerit. These employees compiled all of the merit increase information for the eligible employees in their division and set up the merit increases in the WebMerit system. In the different divisions, the respective Senior Manager (the Chancellor, Provost, Vice Chancellor, Dean, or other Senior Manager) reviewed and approved the merit increases for their division. For some divisions, we noted an email received from the Senior Manager which provided evidence of the approval.

There are control weaknesses with the current approval process. In many instances, the Senior Manager approved the compiled information on spreadsheets without reviewing the actual information input into WebMerit. As a result, an input error that gave an employee a merit increase different from the approved increase would not be easily identified. As has already been noted, divisions often underapplied the division merit pools so a later reconciliation would not identify that an employee was given a larger increase than approved. A potential conflict of interest exists as employees with WebMerit access were often setting up their own merit increases.

To avoid the appearance of a conflict of interest, the Senior Manager or School Dean should formally document their approval of merit increases set up in the WebMerit system by reviewing and approving a report generated from the WebMerit system.

Management Corrective Action

During future merit increases, Human Resources will provide a final report out of the WebMerit system to each Senior Manager for their final review and approval.

This corrective action will be completed during the next round of merit increases.

Other Observations to Consider

3. Use of merit pool available from employee turnover

Table 4 above shows how some divisions benefited from the employee turnover in their divisions. As eligible employees separated from the university during the six months between April 1, 2016 and October 5, 2016, the divisions allocated their portion of the division merit pool to remaining employees. This usually enabled divisions with more employee turnover to pay higher percentage merit increases to employees with Far Exceeds Expectations ratings.

One difficulty was that merit pool savings were not consistently applied. We noted one division that had employee turnover but did not reallocate the merit pool savings to the remaining employees. It appears that communication could have been improved as the employee who allocated the merit increases was not aware that other divisions were reallocating these savings. Another difficulty was where the divisions incorrectly did not consider all of the eligible employees who left the division during the six months. Both of these difficulties resulted in divisions and the campus underutilizing the entire 3% merit pool (see Table 3 above).

While some divisions greatly benefited from the savings created from employee turnover, some small divisions with no turnover of eligible employees had few options for allocating merit increases. For example, we noted one campus unit where management realized before the annual evaluation process that if any eligible staff employee was given a rating of Far Exceeds Expectations (a 4 rating), it would be very difficult for the small division to give merit increases in line with employees' performance. As there was no turnover in this functional area, supervisors determined before the annual evaluations that they would not be able to give any employee a Far Exceeds Expectations rating as the larger merit increase would be at the expense of other employees.

Poor incentives could be created by enabling employees to benefit from the employee turnover in their divisions. We recommend that the Chancellor's Cabinet consider how the merit pool available from employee turnover will be utilized during future years. It could be more equitable to pool these funds and make them available to all divisions.

4. Consistency of merit increase strategies

As discussed in the tables above, divisions used very different strategies for allocating merit pay increases. Some divisions used a wide range of percentage increases while other divisions attempted to give the majority of eligible employees 3% increases (consistent with prior year increases). Ultimately, this resulted in very different merit increases for employees who received Far Exceeds Expectation ratings (see Table 6 above).

We recommend that the Chancellor's Cabinet consider whether disparate practices or more uniform practices for determining merit pay increases would be better for employees.

5. Process difficulties with time lapse before merit pay increases

As this was the first year of the new merit pay program, annual evaluations and the actual merit pay increases were completed months into Fiscal Year 2016 – 2017 (during early October 2016). This was just a circumstance with the first year of implementation.

Some divisions benefited from the time lapse increases as more eligible employees left the campus resulting in additional merit pay to be allocated to remaining employees (see Table 4 above). Other than this benefit, divisions had difficulties in determining the exact merit pool they were working with as they could not always remember which eligible employees left after March 31, 2016. This was one cause mentioned for under applying the 3% merit pools.

During 2017, UC Merced is part of the next group of UC campuses scheduled to go live with the new payroll system, UCPath. This changeover to the new payroll system could further complicate applying merit increases retroactively for Fiscal Year 2016 – 2017.

During future merit pay programs, we recommend that steps be taken so merit pay increases can go into effect closer to the beginning of the fiscal year. With the past schedules of annual evaluations, this could be difficult to complete.