

Recommendations

5

Wage Equity: Equal Pay Analysis Planned

The Office of County Internal Audit:

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Highlights:

Why this audit was performed:

The Audit Committee added an audit about wage equity to the fiscal year 2024 audit plan.

We recommended:

The County continue with plans to conduct an equal-pay analysis and report on outcomes.

Human Resources update rules and procedures related to setting starting wages for new employees.

Wage Equity: Equal Pay Analysis Planned

At an aggregate level, there were gender and race disparities in pay. But the differences may have been due to differences in work performed, education or experience. Other factors such as increasing overtime, a lack of diversity within jobs, and lower retention rates for Non-white women may also have contributed to wage gaps. The County was in the process of implementing an equal-pay analysis to gather more information to explain gaps.

The Equity Review process did not include employees who were offered entry level starting salaries. Outdated personnel rules conflicted with current practices creating confusion about when to request Equity Reviews.

1. Introduction

Nationwide, there is a consistent wage gap between men and women and among races.

The U.S. Congress passed the Equal Pay Act prohibiting gender-based wage discrimination in 1963. Title VII of the 1964 Civil Rights Act extended those protections to include race, color, religion, and national origin.

Despite the passage of these laws, the wage gap remains.

In 2021, women across the nation earned \$0.84 for every dollar earned by men. It was an improvement on the \$0.61 women earned in 1960, but still far from equal.

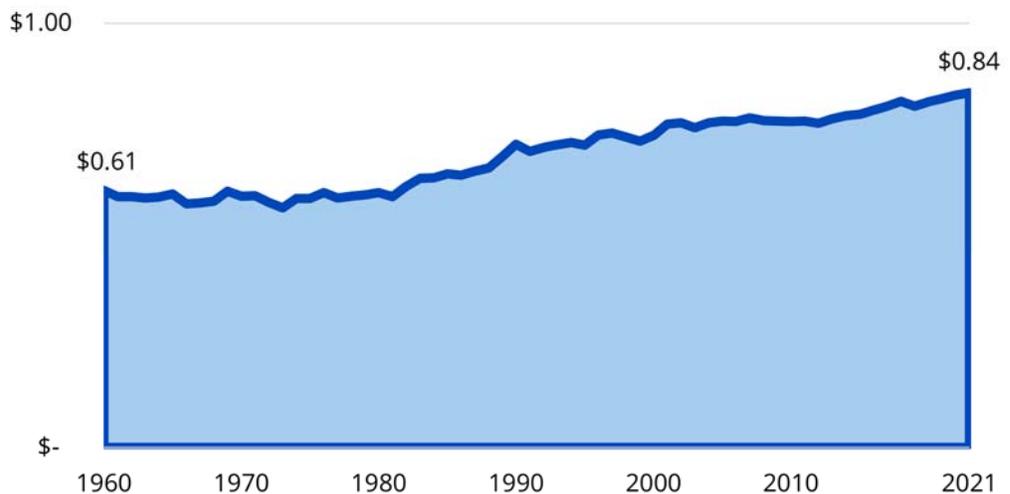
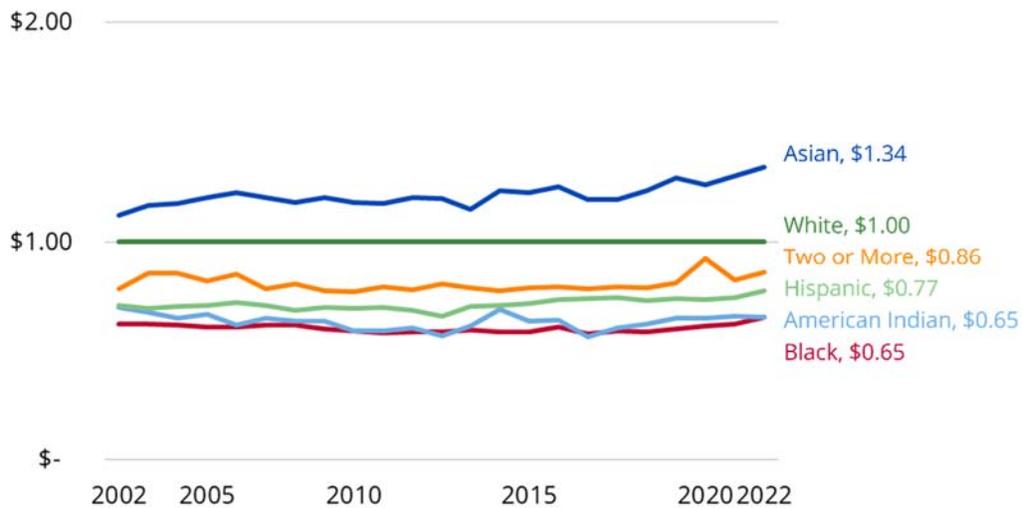


Figure I:
National gender wage gap decreased since 1960 but remains.

Source: U.S. Census

By race, the gap is barely budging. The U.S. Census reports wage earning by race based on households, not individuals, and the data is not available for as long as it is for gender. Households that identified as two or more races earned \$0.86 for every dollar earned by White households. For Non-white Hispanic households, the number was \$0.77; for American Indian and Black households it was \$0.65. Asian households earned more: \$1.34 for every dollar earned by White households.

Figure II:
National race earnings gap remained steady since early 2000s.



Source: U.S. Census

Oregon adopted an Equal Pay Act that strengthened existing laws prohibiting employment discrimination in 2017. The Act was an attempt to reduce the persistent and commonplace wage gaps existing in Oregon across industries. The Act requires employers to pay the same amount to people performing comparable work unless differences are based on specific factors including seniority, merit, education, and experience. If workers are subject to illegal wage differences, they can file complaints to receive back wages.

The Equal Pay Act allows for an equal-pay analysis to correct wage disparities among employees. In an equal-pay analysis, an employer reviews wages earned by employees who perform work of comparable character and determines whether differences in wage are allowed by the factors specified in the Act. If differences are not explained by allowed factors, employers must adjust the wage of the lower paid employee. The Act gives courts the authority to disallow compensatory and punitive damages related to disparate wages if the employer conducted an equal-pay analysis within three years and made progress towards eliminating disparate wages. Even with an equal-pay analysis, employers are required to raise wages for identified employees.

2. Observations

The Oregon Equal Pay Act addresses many factors explaining wage gaps but does not apply to all factors that might lead to wage differences including how much overtime people work, what jobs people perform, and how long they are employed.

These other factors can cause aggregate gender and race disparities even when organizations comply with the Act. For example, Oregon Secretary of State auditors found that even after two rounds of equal-pay analyses at state agencies, women earned \$0.83 on the dollar compared to men and Non-white people earned \$0.88 for every dollar earned by White people.

This section lists observations rather than findings because it includes factors that are not out of compliance with the Oregon Equal Pay Act, but impact wage equity. Deschutes County may want to address these factors to increase wage equity.

How We Reported on Gender and Race

Reporting on Deschutes County employee gender and race was based on data collected by the Human Resources Department for compliance with federal Equal Employment Opportunity rules. Employees self-selected gender and race when applying for a County position. According to Equal Employment Opportunity program rules, if a person did not self-select a demographic, County staff should select a gender and race for them based on staff perception. People who did not have a gender and race selected were excluded from calculations, but there were so few of these that the removal did not impact overall trends.

Gender categories included male, female, and nonbinary. Race categories included American Indian, Asian, Black, Hispanic or Latino, Pacific Islander, White, and Two or More Races.

Decisions about how to report on small statistical populations take consideration of potential benefits and drawbacks. Reporting on small populations can highlight diversity among subgroups or amplify voices. But it also can cause privacy concerns if individual people can be identified based on averages.

Auditors chose to exclude people who identified as nonbinary in the gender category to protect privacy.

Auditors chose to aggregate race categories into White and Non-white. We reported on Wage data for Latina women because there were more than 30 people in this category.

Overtime contributes to wage gaps

Overtime impacts pay disparities at Deschutes County. Including overtime in aggregate wage gap analysis decreases disparities for Non-white men but increases disparities for women. When looking at base wages, Non-white women earn \$0.76 for every dollar earned by White men, but it decreases to \$0.72 when overtime is included.

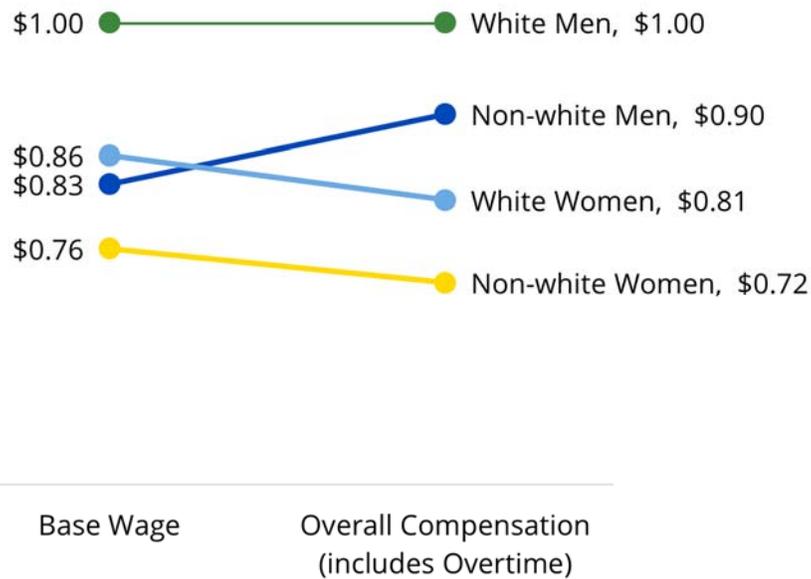


Figure III:
Overtime decreases compensation disparities for Non-white men but increases disparities for women.

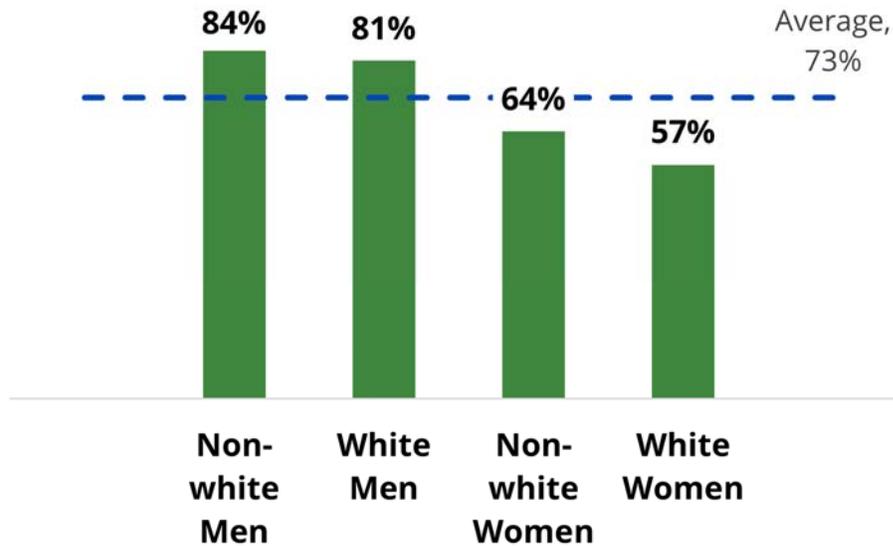
Source: Deschutes County Financial System

Researchers have found childbearing responsibilities impact women’s opportunities to earn overtime. A survey by the Economist found 44-75% of women with children at home scaled back their work hours, switched to a less demanding job, or opted for one requiring less overtime.

Among people who were eligible to work overtime at Deschutes County, women were less likely to work it.

Figure IV:

Compared to men, a lower percentage of women who were eligible to work overtime did so.

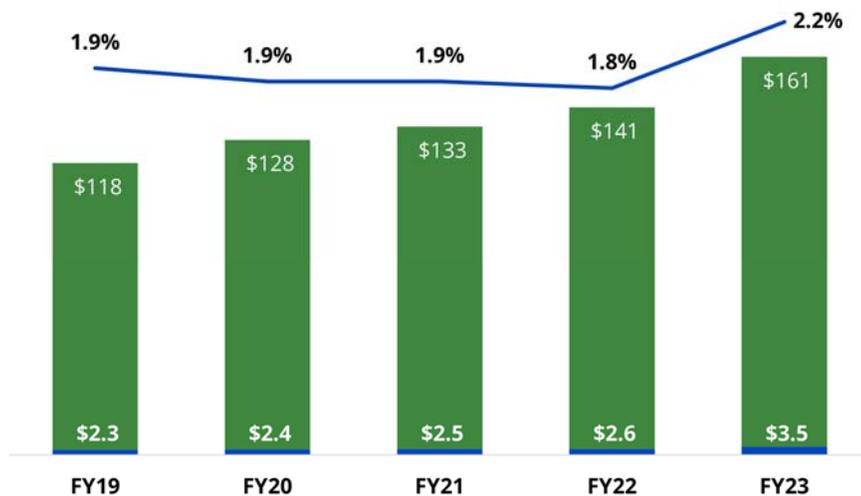


Source: Deschutes County Financial System

Overtime use at Deschutes County increased in 2023. The consensus among County staff is that overtime increased due to staffing shortages and the competitive job market.

Figure V:

Overtime increased as a percentage of overall personnel costs in 2023. (cost in millions)



Source: Deschutes County Financial System

Most conversations about the cost of overtime center on increased financial expenses, employee fatigue, and burnout. An increase in inequitable wages is a more subtle consequence decision-makers might be less aware of.

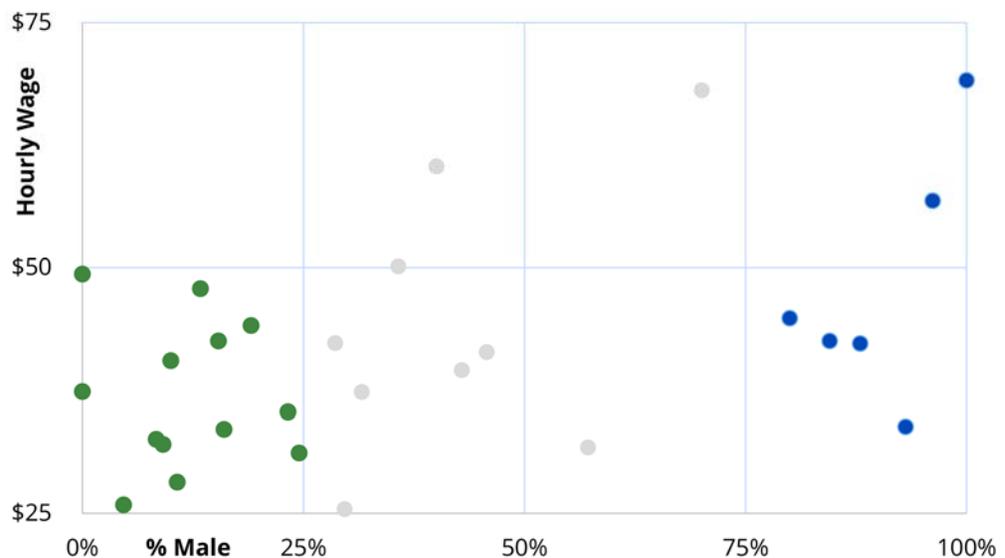
Jobs that are not gender and race diverse contribute to wage gaps

According to a study by Glassdoor, job sorting, the tendency for women and men to work different jobs, explains 54 percent of the overall gender wage gap in the United States. For example, nurses tend to be women and they earn less than police officers who tend to be men.

Women tend to work in lower paying jobs at the County as well. For jobs with more than ten people, most jobs either have more than 75% men or less than 25% men. Jobs with fewer men pay less.

Figure VI:

Jobs with fewer than 25% men tend to pay less than **Jobs with more than 75% men.**

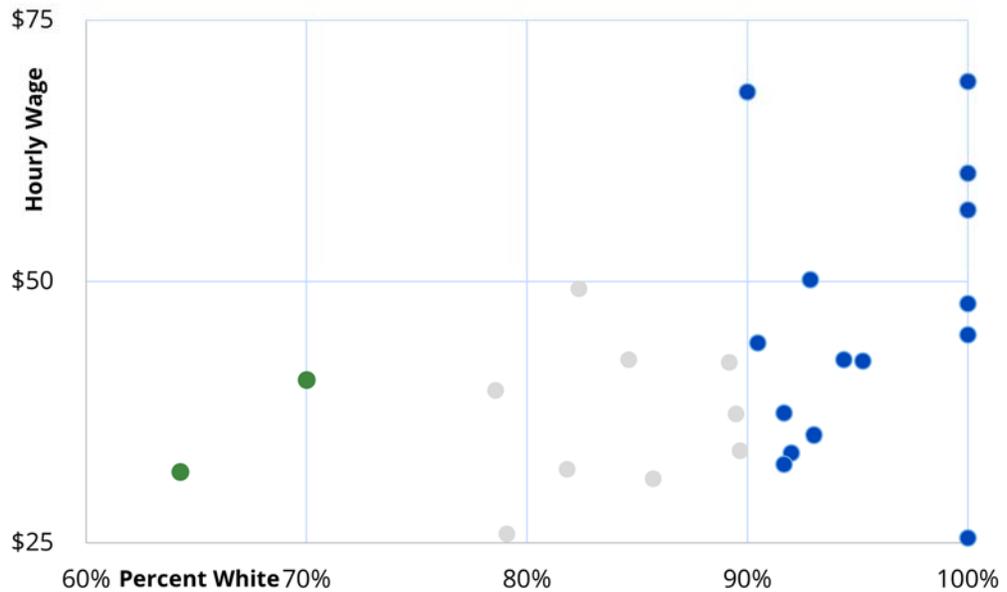


Source: Deschutes County Financial System

There was some job sorting by race as well, but the pattern was not as strong as it was for gender. No County jobs with more than 10 people were staffed by fewer than 60 percent White people. Jobs with more White people covered the entire range of wages from highest to lowest; including the lowest paid job which was 100 percent White. That said, no jobs with fewer than 90% White people paid over \$50 per hour.

Figure VII:

Jobs with fewer White people at the County paid less than **jobs with more White people**



Source: Deschutes County Financial System

During interviews of a random sample of staff, staff said positions were either mostly male or mostly female with less than a quarter saying there was gender diversity within positions.

Reasons given for the lack of diversity in positions included

- a lack of diversity in the field
- work suited to one gender
- job impositions on family obligations
- disregard for gender or race when making hiring decisions.

When people spoke about career paths, they mentioned moving up within a position rather than moving among positions. For example, moving from an administrative technician to an administrative supervisor, or from a patrol deputy to a sergeant. There were fewer answers related to moving to a different kind of position which might serve to decrease job sorting and increase diversity.

People were most likely to say they found out about their job through word of mouth, which is not likely to increase diversity.

Creating pathways for movement between jobs or focusing on recruiting a diverse candidate pool could decrease wage gaps.

Lower retention for Non-white women contributes to wage gaps

A third allowed factor potentially leading to wage gaps was tenure. County employees earn more the longer they stay with the County.

Looking at people hired in the past few years, White people stayed with the County longer than people from other races. Fewer than 30 percent of White people and Non-white men left the County within two years of being hired. The number jumped to 55 percent for Non-white women who left the County within two years.

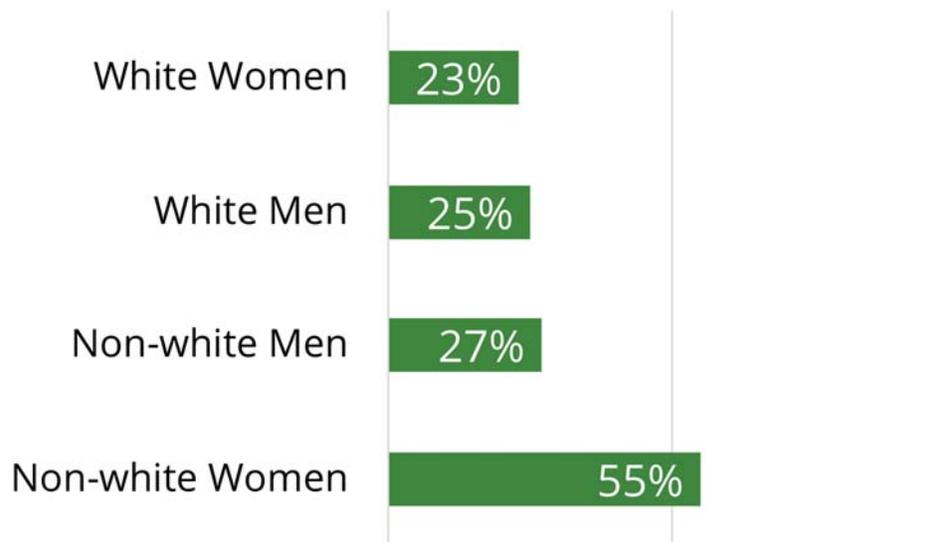


Figure VIII:
55 percent of Non-white women left the County within two years of being hired.

Source: Deschutes County Financial System

Taking a longer look, White men had been with the County for more years, increasing how much they earned. Based on an analysis of all people employed at the County, White men had been at the County an average of 9.2 years compared to 4 years for Non-white and Non-latina women.

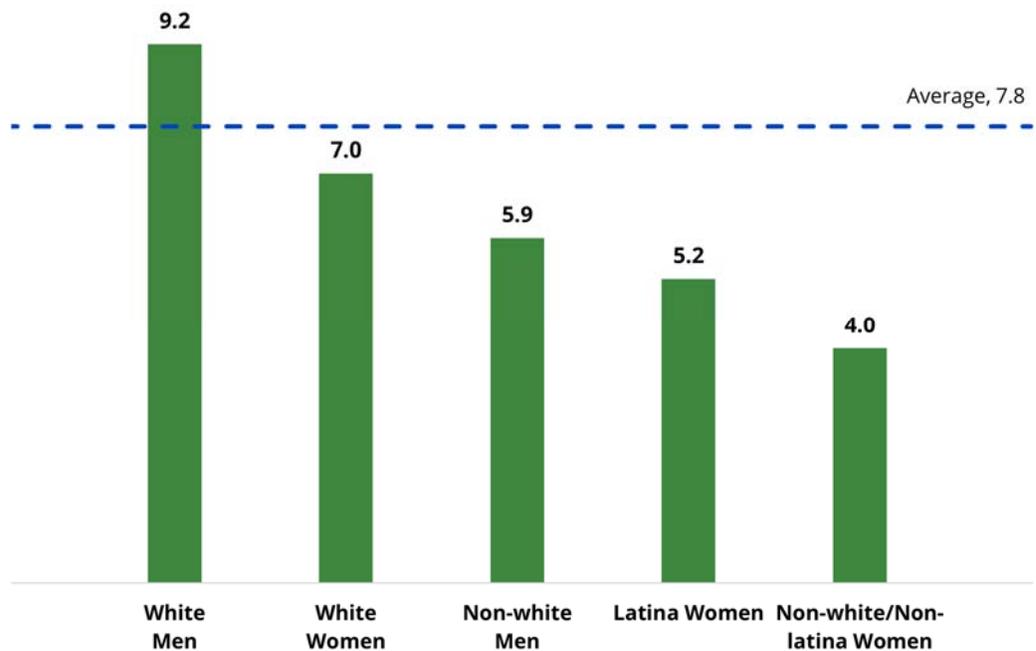


Figure IX:
White men had more years with the County than other groups.

Source: Deschutes County Financial System

Focusing on retention of Non-white women may decrease wage inequities at the County.

3. Findings

Our audit objective was to determine whether race and gender wage disparities existed at the organizational level and whether there were procedures in place to prevent them.

We found that wage gaps existed at an organizational level and the County was in the process of implementing an equal-pay analysis to determine whether differences among individual employees performing comparable work resulted from allowed factors. We also found that the procedure designed to ensure new employee salary offers complied with the Oregon Equal Pay Act didn't apply to employees offered entry level salaries

and that personnel rules discouraged the procedure.

The County was conducting an equal-pay analysis

Deschutes County is not immune to the nation-wide wage gap trend. When looking at overall compensation, the amount earned including overtime and premium pay, White men earned about \$100,000 annually compared to about \$73,000 for Non-white women. The wage gap is greater for gender than for race, but worse for Non-white women than other women.

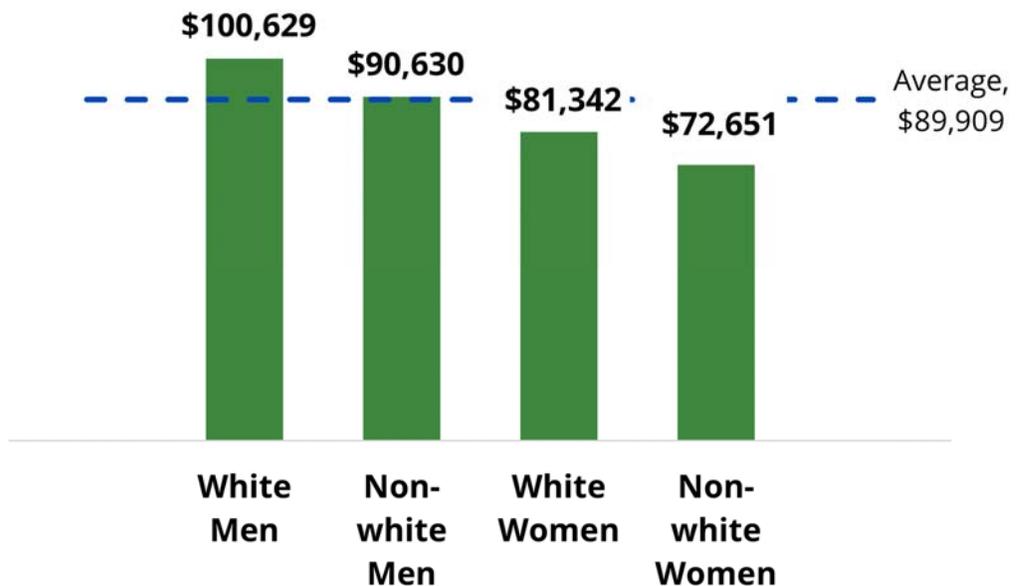


Figure X:
White men earned more in total compensation than other staff in 2022.

Source: Deschutes County Financial System

This means that Non-white men earned \$0.90, White women earned \$0.81, and Non-white women earned \$0.72 for every dollar earned by White men.

Overall wage gaps do not mean Deschutes County is violating the Oregon Equal Pay Act. The differences in wages may result from employees performing different work or having different levels of

education and experience. Rather than proving a violation of the Act, the gaps show the County needs to take a closer look at why they exist by conducting an equal-pay analysis.

In the fall of 2023, Deschutes County appropriated funds to conduct an equal-pay analysis and was in the process of selecting a consultant to conduct the study in the winter of 2024.

In the past, the County has not reported on pay equity or wage gaps. Other reports on gender and race disparities didn't address wage gaps directly. Reporting is an integral part of an organization's system of internal control. Though it wouldn't be appropriate to report on any specific disparities identified through the equal-pay analysis, reporting on the work that was conducted and overall conclusions will increase transparency and accountability.

- 1. County Administration should continue with the plan to conduct an equal-pay analysis.***
- 2. County Administration should report results of the equal-pay analysis in a format accessible to leadership, employees, and community members.***

The Equity Review process did not include employees offered entry level salaries

Employees at Deschutes County have only one chance to negotiate their wages: when they accept their starting salary. After that, increases in wages are determined by step, even for promotions. This underscores the importance of determining starting wage and shows inequities at the hiring stage can follow someone throughout their career at the County.

About the Deschutes County Compensation Structure

There is a pre-determined wage range for each job. Ranges are split into steps, usually ranging from one to seven. An employee increases in step with each year in the position if they have received a favorable annual review. After reaching the top step, employees no longer receive increases in wages other than cost of living increases based on inflation. Deschutes County hiring supervisors can start new employees at any point on the wage-range, but anything higher than step one or two is considered more than entry level and requires an Equity Review.

The Human Resources Department created the Equity Review process to make sure decisions about starting salary were consistent. The process involved both hiring supervisors and Human Resources staff.

Figure XI:
The Equity Review Process.



There was inconsistency in how often supervisors requested Equity Reviews. Auditors spoke with a random sample of hiring supervisors to find out more about how they decided starting salary offers. Most supervisors said half or more of the people they hired came with some experience. Supervisors from three departments said they have been asked to do an Equity Review for all new hires. In contrast, three supervisors said they always

told applicants that most people start at step one.

Based on a random sample of Equity Reviews, the distribution of steps generally aligned with experience but there were anomalies. In one case, a new hire with seven years of experience should have been placed higher on the pay scale, but the hiring supervisor did not request an Equity Review. The rule only required a Review for applicants placed at step three or higher, not at step one.

Outdated personnel rules contributed to different outcomes by leaving some employees out of the process. The language in County personnel rules related to starting wage offers gave the impression that most employees should start at step one or two and not receive an Equity Review. The rules were written before the Equity Review process and did not reflect current practice. The rules stated:

New employees shall generally be placed at the first step of the pay grade. When a new employee has **extensive** prior experience and the department believes it is justified, an employee may be hired at **the second step** of the pay grade. Hiring at step three or above requires prior approval by the County Administrator and will only be granted in **extraordinary** circumstances. (emphasis added)

Practices have changed since the rule was written. Supervisors said a few years ago, it was rare for anyone to be hired above step two even with experience. A supervisor following the personnel rule would be less likely to consider a higher step thereby missing the chance for Human Resources to conduct an Equity Review. The change in practice means it is even more important for there to be a review of the rules that govern it. Without an Equity Review, Human Resources staff did not have a chance to independently review a new applicant's experience against current employees.

County employees and hiring supervisors had mixed reviews for

the Human Resources Department Equity Review process based on interviews with a random sample of employees.

- Most people thought the process was fair, but a few said it was not.
- Most people were happy with their initial salary offer. However, two people said they regretted not negotiating for higher wages.
- More than half of the people we spoke with said they exceeded minimum qualifications when they were hired. Two of them still ended up being offered the lowest salary and another placed at the low end of the range was disappointed with the offer. That may be because when a higher step is offered, it is usually the supervisor who proposes it.
- Some of the supervisors we spoke with mentioned the process for determining salary for promotions was not fair and based on previous salary.

The procedures for conducting Equity Reviews did not include instructions for offering employees step one or two. Human Resources staff said that they began informally reviewing step one or two offers and would conduct a full equity review if there were any red flags. But the process was not formalized in the procedure.

Additionally, the Supervisor Toolkit on the County intranet did not provide information about Equity Reviews, though it provided other guidance about the hiring process including how to evaluate job candidates and check references.

3. Human Resources should update the Personnel Rules to include the Equity Review process.

- 4. Human Resources should update the Equity Review procedures to include review for employees offered steps one or two.**
- 5. Human Resources should add the Equity Review process and procedures to the Supervisor Tool Kit.**

4. Management Response



TO: County Internal Auditor Elizabeth Pape
FROM: Nick Lelack, County Administrator
Kathleen Hinman, Human Resources Director
RE: Wage Equity: Equal Pay Analysis Planned Audit #23/24-5
DATE: March 1, 2024

Thank you for the opportunity to provide feedback on **the Wage Equity: Equal Pay Analysis Planned Audit #23/24-5**.

Please find County Administration and Human Resources' responses to audit recommendations:

#1 – County Administration should continue with the plan to conduct an equal pay-analysis.

AGREE.

As you noted in your report, in October 2023, the Board of County Commissioners provided approval for the County to hire a consultant to complete a salary and equity study.

Staff issued an RFP for this work in November, conducted first and second round interviews earlier this year and are finalizing a contract to begin this project. We anticipate that work will begin this month.

The study will include work to help the County:

- ***Understand the equity and competitiveness of our employee's compensation and benefits,***
- ***Update the existing program so that the program can be competitive, sustainable, and equitable for the future, and***
- ***Recommend a budget plan to appropriately realign employees' compensation as necessary.***

This project will encompass a thorough wage review and market analysis for Non-represented and AFSCME represented employees, as well as look at internal equity and pay equity within the organization. A compensation structure will be recommended that includes methods to easily update the wage structure as new market indicators and minimum wage changes occur; as well recommendations for addressing employee and position equity, advancement, and development.

The consultant hired will guide the County through processes to facilitate project planning and engage County leadership on establishing comparable agencies, updating the County's compensation philosophy, and reviewing salary structure for competitiveness and equity. The consultant will conduct strategy meetings with stakeholders, review all positions within the scope of the project, collect salary survey data, and make compensation recommendations regarding salary ranges and structure.

The consultant will also complete a review of existing policies and procedures applicable to administering compensation to ensure the organization follows industry best practices and managers and leaders are able to administer compensation in a disciplined way to ensure that compensation of employees across the County is managed equitably and consistently.

The consultant will also review internal equity for outliers and areas of

compression and complete an analysis ensuring the County's compliance with pay equity laws.

#2 – County Administration should report results of the equal-pay analysis in a format accessible to leadership, employees, and community members.

AGREE.

At the conclusion of the Salary Study and Market Review project, a report will be generated and presented that will include deliverables that address the requirements listed above. Throughout the process, the selected consultant will assist the County with all appropriate communications.

#3 – Human Resources should update the Personnel Rules to include the equity review process.

GENERALLY AGREE.

#4 – Human Resources should update the Equity Review procedures to include review for employees offered steps one or two.

GENERALLY AGREE.

#5 – Human Resources should add the Equity Review process and procedures to the Supervisor Tool Kit.

AGREE.

The consultant will complete a review of existing policies and procedures applicable to administering compensation. This review may impact the County's current compensation procedures and policies. Modifications to procedures and policies will be evaluated, implemented, and documented after the Salary and Equity study is complete.

Human Resources has communicated about the equity review process with County Leadership and will continue to communicate with departments and offices about the process to ensure there is a uniform understanding of the process within the organization.

Thank you again for your analysis and the observations and findings contained in this audit.

5. Appendix A: Objective, Scope, and Methodology

The Office of Internal Audit was created by the Deschutes County Code as an independent office conducting performance audits to provide information and recommendations for improvement.

The Deschutes County Audit Committee authorized the review of wage equity in the Internal Audit Work Plan for 2023-2024.

Audit findings result from incidents of non-compliance with stated procedures and/or departures from prudent operation. The findings are, by nature, subjective. The audit disclosed certain policies, procedures and practices that could be improved. The audit was neither designed nor intended to be a detailed study of every relevant system, procedure, or transaction. Accordingly, the opportunities for improvement presented in the report may not be all-inclusive of areas where improvement may be needed and does not replace efforts needed to design an effective system of internal control.

Management has responsibility for the system of internal controls, including monitoring internal controls on an ongoing basis to ensure any weaknesses or non-compliance are promptly identified and corrected. Internal controls provide reasonable but not absolute assurance that an organization's goals and objectives will be achieved.

Objectives and Scope



"Audit objectives" define the goals of the audit.

Objectives included determining whether:

1. Gender and race disparities in wages exist at an organizational level. (Not for individual employees.)
2. The County has procedures in place to prevent disparities.

3. The County tracks and reports wage demographics.
4. The County has clear policies to prevent disparities.

The scope of our review depended on data sources.

- Annual compensation was based on the calendar year 2022.
- Hourly wage was based on active employees on September 13, 2023, the day auditors ran the report.
- Starting step included employees hired between June 12, 2020, and September 13, 2023. The starting date was based on a date when a glitch was fixed in the financial system which caused it to overwrite data.
- Equity Reviews included all reviews conducted between August 15, 2018, when the process began and October 18, 2023, when auditors received the files.

Methodology



Audit procedures are created to address the audit objectives.

Audit procedures included:

- Interviewing Human Resources staff involved in Equity Reviews and data management.
- Interviewing a random sample of county employees, some of whom were hired within the past few years and some who were involved in hiring. The sample of employees included 26 people out of a population of 440. The sample of hiring supervisors included 20 out of a population of 110. We coded interviews to draw qualitative conclusions. Because the sample was random and representative, results can be extrapolated to the population.

- Reviewing data from the County financial system to determine whether there were gender or race disparities in overall compensation, hourly wage, and starting step. We used T-tests to determine whether the differences in means were statistically significant.
- Reviewing Equity Reviews. We reviewed a sample of 20 reviews from a population of 227. Because the sample was random and representative results can be extrapolated to the population.
- Reviewing laws, research, Deschutes County rules and procedures, and best practices related to wage equity.
- We discovered an internal control issue that was not material and was not significant to the objectives of this audit. We communicated the issue to Human Resources management.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

(2018 Revision of Government Auditing Standards, issued by the Comptroller General of the United States.)

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