



HUMAN RESOURCES: Risks in managing the City's workforce

October 2016

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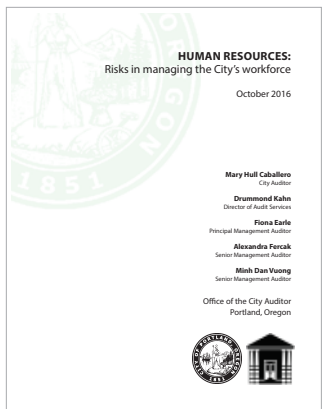
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Commissioner Dan Saltzman
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Anna Kanwit, Director, Bureau of Human Resources

SUBJECT: Audit Report – *Human Resources: Risks in managing the City's workforce* (Report #465)

This report contains the results of our audit of the risks in the City's human resources management. We identified six areas that warrant attention from management in the Bureau of Human Resources and in bureaus across the City which share responsibility for managing the City's workforce. The response letter from the Director of Human Resources is included at the end of the report.

We appreciate the assistance we received from the Bureau of Human Resources as we conducted this audit.

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HUMAN RESOURCES:

Risks in managing the City's workforce

Background

The City employs about 8,000 people, including seasonal and part-time employees, who deliver a variety of services. Proper workforce management ensures that the City achieves its mission and delivers services effectively and efficiently, while complying with applicable laws.

As with many City functions, human resources tasks are the shared responsibility of the centralized Bureau of Human Resources (Human Resources) and individual bureaus and offices. Human Resources provides strategic leadership and management for Citywide personnel systems. Individual bureaus and offices carry out personnel tasks related to their own workforces.

The mission of Human Resources is to be "Knowledgeable | Helpful | Responsive." Human Resources had about 80 employees and \$64 million in expenses (which includes self-insurance for healthcare) in Fiscal Year 2015. Divisions of Human Resources are:

- Classification and Compensation
- Diversity, Outreach, and Employment Resources (recruitments)
- Health and Financial Benefits
- HR & Payroll Services
- HR Site Teams and Police HR Site Team Services
- Labor Relations
- Finance
- Training and Workforce Development

What is a risk assessment?

The objective of our audit was to assess risk in the City's human resources management.

A risk is the potential that an action (or inaction) will lead to a loss or an undesirable outcome. Potential losses themselves may also be called risks.

A risk is different from an audit finding. A risk identifies **potential** problems that warrant management attention, while an audit finding identifies a problem that is occurring.

In this report, we call attention to six major risk areas that warrant management attention. For each risk, we describe why the risk is important and what Human Resources and the City have done to address it. We propose potential mitigating activities that Human Resources and the City could take for each risk. In addition, we are including a list of other risks that Human Resources should consider. These risks may become areas of focus for future audits.

Major risk areas discussed in this report

1. Responsibilities are split between bureaus and Human Resources
2. Recruitments are time-consuming
3. The City's workforce is not as diverse as Portland's population
4. Rising employee benefit costs are a financial risk
5. Staff turnover rates and reasons for leaving are unknown
6. Senior managers of bureaus are outside the Civil Service system

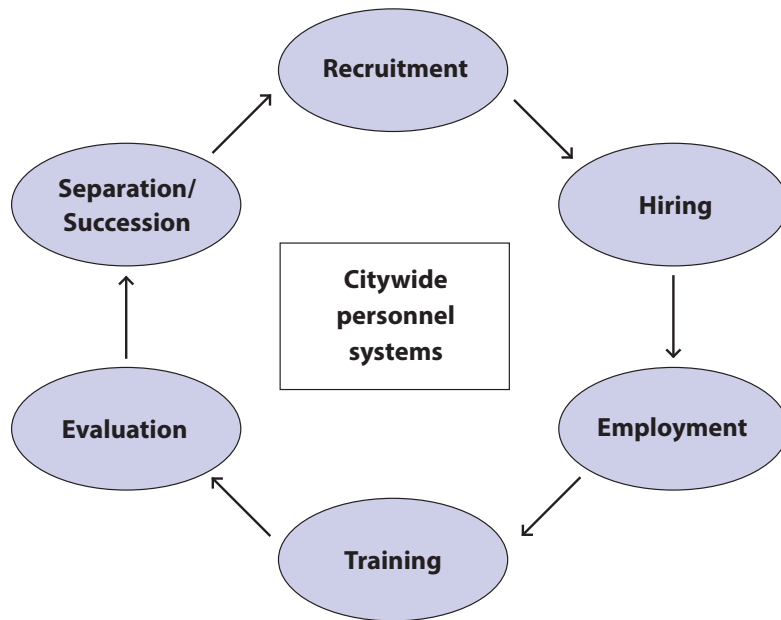
Other risk areas for Human Resources to consider

- Citywide training and staff development may not meet City's needs
- Some City employees do not get the required annual performance evaluation

- Job position descriptions may not accurately reflect the duties performed by employees
- Personal information of City employees and customers may not be protected
- Human Resources does not track outcomes in its performance measures

Not all of these risks are under the control of the Bureau of Human Resources, although it has responsibility for many of the City's hiring and employment programs.

Figure 1 Typical workforce lifecycle, with points where human resources need to be managed



Source: Audit Services

1. Responsibilities are split between bureaus and Human Resources

What is the condition?

Risk:

Some personnel administration tasks may be handled less than optimally because responsibilities are split between Human Resources and other bureaus. Because of this split, workforce management may be ineffective in some areas.

Employees may have different experiences getting hired, oriented, trained, and evaluated.

Some personnel tasks may be handled less than optimally because responsibilities are split between the Bureau of Human Resources and other City bureaus and offices. As a result, the City may not be managing its workforce effectively in some areas. Some administrative policies do not clearly describe which party is responsible. In some areas where Human Resources retains Citywide data or could be a neutral party, it does not monitor the City workforce.

Some functions are centrally and exclusively administered by Human Resources, such as labor negotiations, benefits administration, classification/compensation, and payroll. In addition, Human Resources views its role as a strategic adviser. Site teams of HR business partners advise bureaus. HR business partners leave the selection of new hires, personnel data entry, and many other routine tasks to each bureau.

Human Resources does not see itself in the role of managing the City workforce as a whole. Human Resources also does not provide vacancy and other workforce reports to managers across the City. Its performance measures do not measure broad workforce outcomes. Nevertheless, Human Resources takes on Citywide projects, such as the current redesign of new employee training, the gender pay equity study, and the City initiative to become an “employer of choice.”

Why is this important?

When responsibilities are not clearly understood, employees who expect consistent treatment across the organization may have differing experiences and City administrative rules may not be followed. For example:

- The hiring process may be too slow, because bureaus and Human Resources hand off recruitment tasks to each other multiple times
- Some bureaus are taking advantage of extensive recruitment resources, such as diversity outreach and advertising, but other bureaus may not
- New employees may be offered different orientation and training experiences, depending on how well their bureau has developed resources

-
- There is little Citywide training coordination, so bureaus may differ in the job-related training they offer. Human Resources acknowledges the City's training program could be more robust, but it is constrained by funding
 - Some employees may be denied their performance evaluations, and Human Resources does not believe it has the authority to intervene
 - Discipline may be uneven across the City, as it is handled by each bureau
 - Managers across the City do not have access to personnel data that would help them plan and manage their workforce and address issues including turnover and retention.

What has the City done to address risk?

Human Resources adopted a strategic plan in 2010 that mapped out its direction, and it updated the strategic plan in 2014. The strategic plan does not directly address the risks arising from splitting responsibility for workforce management between central Human Resources and other bureaus. In addition, bureaus have conducted organizational and management studies on personnel administration in the City, such as the Office of Management and Finance's strategic plan and some consultant reports.

Human Resources managers disagree with our assessment that this is a risk area that needs attention. They said that its current role and the split of responsibilities to other bureaus is appropriate and a best practice.

What could be done to mitigate the risk?

Human Resources could more clearly explain in its administrative rules which parties are responsible and accountable for personnel administration tasks.

Human Resources could improve the consistency of the management of employees in bureaus across the City in areas subject to its administrative rules, including hiring, orientation, on-going training, and evaluations.

Human Resources could ask Council to clarify or establish its authority to enforce rules for the areas of workforce management across the City in which it feels it lacks authority or responsibility.

2. Recruitments are time-consuming

What is the condition?

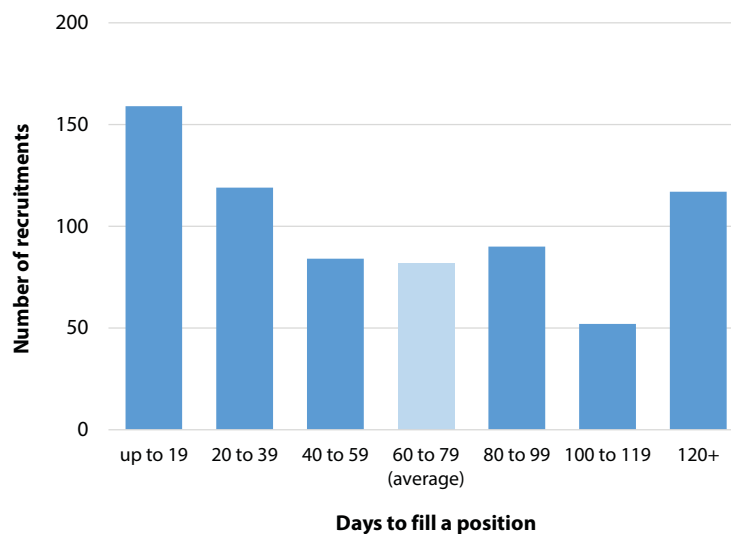
Risk:

Recruitments may take too long, which may hinder delivery of City services. Human Resources does not have or use reliable data to track recruitment times, which makes it hard to improve the process.

The Bureau of Human Resources shares the recruitment process with hiring bureaus around the City, as shown in Figure 3. Some hiring managers in the bureaus saw recruitment as an area where Human Resources could improve, because recruitments appear to take too long. The number of Human Resources staff in this division fell by 31 percent from FY 2011 to FY 2015 due to budget cuts. The Bureau identified this area as understaffed.

Human Resources could not determine exactly how long recruitments take because it does not report actual timelines to complete a recruitment. Human Resources did not provide documentation tracking the duration of each hiring step for recruitments overall, although this data is available in NeoGov, the City’s on-line job application system. Human Resources was unable to quantify the processing time for hiring when the City Budget Office requested it. We calculated a weighted average of 68 days from a recruitment order to hiring a new employee in 2015. We found that 45 percent of the recruitment orders filled in 2015 took more than 60 days to fill, and 28 percent took more than three months. In addition, we have data reliability questions about NeoGov.

Figure 2 Recruitments take a long time (average 68 days)



Source: Human Resources’ NeoGov report “Requisitions Filled” for calendar year 2015.

Note: The total was 743 recruitment orders. Not shown: 40 positions filled with applicants from a previous recruitment.

We question the accuracy and completeness of the data in NeoGov because of missing data in reports we reviewed. NeoGov calculates the time to fill some jobs as negative days when the job is filled by a candidate from a previous recruitment. Human Resources has cancelled recruitments when hiring bureaus have long gaps between starting the recruitment

NeoGov is the online application system that the City uses to post job openings, receive and track job applications. Most of the City's staff are recruited through it; seasonal hires for the Parks bureau are not. NeoGov only operates in English.

process in NeoGov and being ready to post the open position. If Human Resources cancels a recruitment, the hiring bureau or Human Resources has to re-input the recruitment order when the bureau is ready to proceed. This changes the recruitment start date.

Human Resources does not measure its performance by the amount of time taken to recruit a new employee – it only measures the percentage of recruitments that meet original or renegotiated timelines. According to Human Resources managers, about half of recruitment timelines are renegotiated because the hiring manager is unexpectedly absent or the hiring bureau has trouble finding a subject matter expert to evaluate the candidates' training and experience.

The City's recruitment process is complicated by the need to meet the Civil Service merit principle of looking for candidates with demonstrated fitness for the position. Under the City's Human Resources rules, the recruitment process selects the most qualified candidates. Human Resources takes steps to recruit well-qualified job applicants: 74 percent of 2015 recruitments were open to outside competition. In addition, Human Resources holds nearly 300 employment examinations a year.

Why is this important?

Failure to promptly fill vacant positions may hinder the City's delivery of services. When the City's hiring process is slow, candidates may accept positions elsewhere before the City makes job offers.

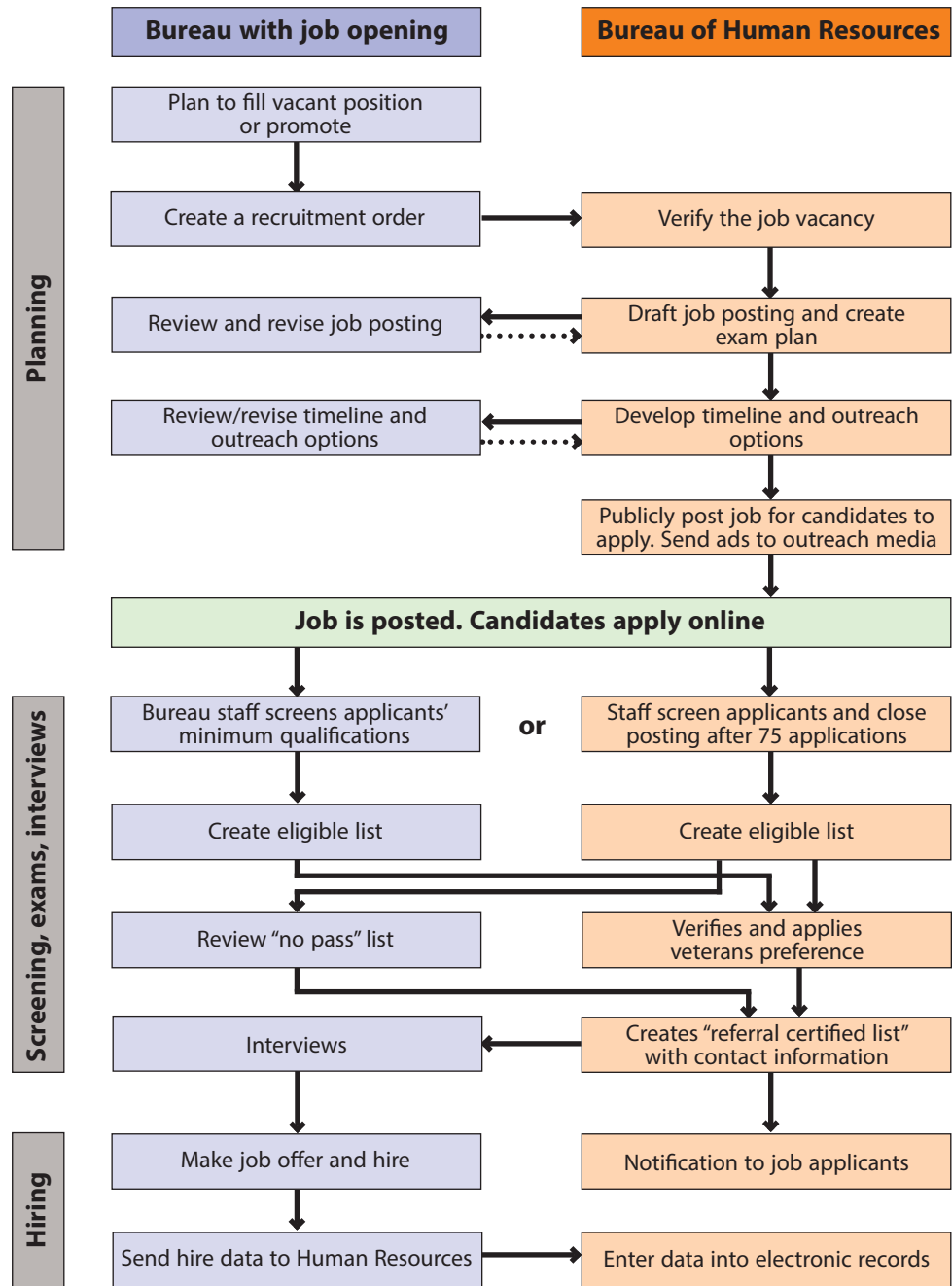
What has Human Resources done to address risk?

Human Resources reviewed Citywide recruitment processes in early 2015. During 2015, the Bureau made some process improvements to recruitment. These changes are not reflected in the recruitment standard operating procedures we reviewed during this audit. Human Resources did not produce data to show that the recruitment process has become faster with the implementation of these changes.

What could be done to mitigate the risk?

Human Resources could track the timeliness of each step in the recruitment process to identify and address problem areas.

Figure 3 Recruitments are handed back and forth between hiring bureau and Bureau of Human Resources



Source: Audit Services

3. The City’s workforce is not as diverse as Portland’s population

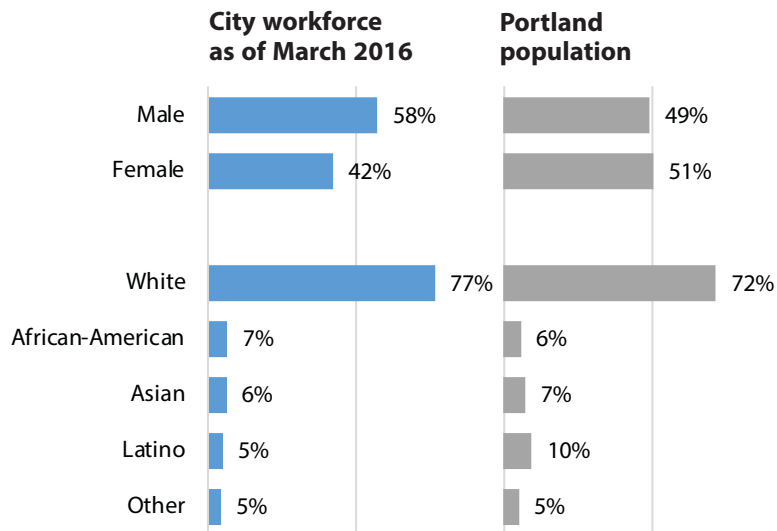
What is the condition?

The City’s workforce, and particularly its senior management, does not reflect the gender and racial diversity of the people it serves.

The diversity of the employees hired by the City is shown in Figure 4. The City has a smaller proportion of female employees than the gender split in Portland. The City’s workforce and 2015 hires are not as racially diverse as Portland’s population. The City is particularly lacking in Latino employees.

Risk:
The City workforce, especially in senior management, is not as diverse as Portland’s population or labor force. This may make it harder for the City to understand and communicate effectively with the people it serves.

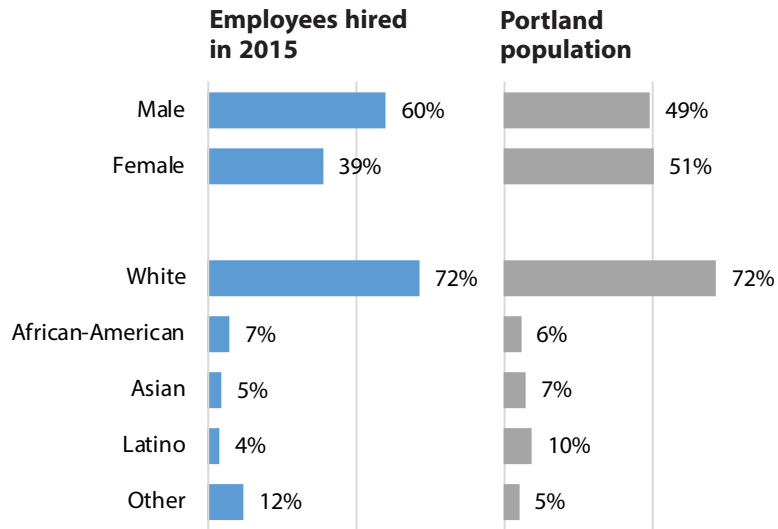
Figure 4 The City workforce is not as diverse as the population



Sources: Office of Equity and Human Rights’ website dashboard with City workforce demographics, and U.S. Census’ American Community Survey 2010-2014.

The City’s most recent year of recruitment did not close the gender gap between the percentage of females hired and the percentage of females in Portland, as shown in Figure 5. In addition, Asians and Latinos were underrepresented among the people that the City hired in 2015, compared to Portland’s population.

Figure 5 Recent hires are also not as diverse as the population



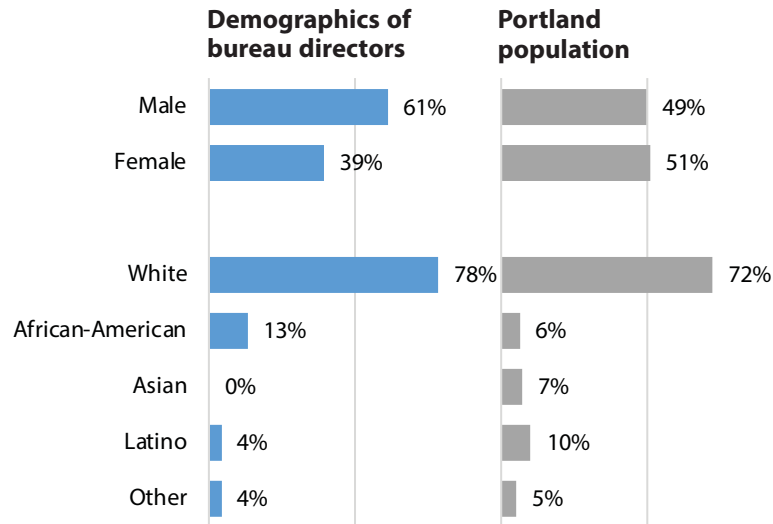
Sources: Human Resources' NeoGov report "Requisitions Filled" for 2015, and U.S. Census' American Community Survey 2010-2014.

In 2015, Portland's Citywide Equity Committee expressed concern about the City's practice of appointing bureau directors and other top managers with no competitive process. Since January 1, 2013, there have been 13 executive appointments. Ten resulted in male candidates and all 13 were white.

The current bureau directors do not match the City's population in terms of gender: 14 are male and nine are female, as shown in Figure 6. Males represent less than half (49 percent) of the population of Portland, yet account for 61 percent of the bureau directors.

There also appears to be less racial diversity among top City managers compared to Portland's population, as shown in Figure 6. The majority of bureau directors (78 percent) are white. The percentage of white bureau directors is greater than the percentage of the City's residents who are white (72 percent). African Americans make up 13 percent of the City's top managers, which is more than twice the proportion of the City's residents who are African American (6 percent). There are no Asian bureau directors, yet seven percent of Portland's population is Asian.

Figure 6 Bureau directors are not as diverse as the population



Sources: Auditor analysis and U.S. Census' American Community Survey 2010-2014.

We also compared the City workforce against Portland's labor force, which excludes students, homemakers, retired workers, and institutionalized people. Our conclusions are unchanged. Portland's labor force was 52 percent male (age 20 to 64 only). In terms of race, 76 percent of the labor force identify as non-Latino white, 5 percent African-American, 7 percent Asian, and 8 percent Latino.

Why is this important?

One City goal is to foster a diverse workforce. This is part of the City's Equity Framework under the Portland Plan. A City workforce that does not reflect the gender and racial diversity of Portland runs contrary to the rule adopted by City Council on equal employment opportunity and affirmative action.

Portland's Citywide Equity Committee concluded that selection processes favoring familiar and/or connected candidates fail to ensure that candidates from historically under-represented populations have equitable access to positions of authority in the City.

What has Human Resources done to address risk?

Under the Diversity Development/Affirmative Action Plan adopted by Council in 2001 as City policy, the Director of Human Resources has overall responsibility for implementation of the equal employment opportunity policy and the Affirmative Action Plan.

Human Resources management said that it cannot force bureau hiring managers to do focused outreach to female and minority populations during recruitments, and it is Council's responsibility to hold their bureau leaders accountable to implement the City's Affirmative Action Plan. Human Resources gathers data and reports to Council semi-annually on the demographic composition of the City's workforce compared to the 2000 Census data. This data is used as a benchmark for the City's current Affirmative Action Plan. In April 2016, Council directed Human Resources to evaluate existing workforce data for gender pay equity.

Human Resources has a new key performance measure for FY 2016 to track whether hiring bureaus offer positions to qualified diverse Focused Outreach Program candidates. This program is designed to attract, recruit, retain, and promote people of color into City positions and careers.

To promote equity and inclusion, in January 2016 City Council adopted the Charles Jordan Standard as City policy. Council acted through a resolution drafted by Human Resources. This policy requires the Commissioner-in-charge to interview the highest-ranking candidates from the following groups when hiring a bureau director through a recruitment process:

- minority candidates
- women candidates
- persons who identify as having a disability

However, both the resolution and the policy do not apply the Charles Jordan Standard to direct appointments of bureau directors. Commissioners-in-charge can still directly appoint bureau directors without interviewing multiple candidates.

What could be done to mitigate the risk?

Commissioners-in-charge and Human Resources could require all City bureaus to conduct focused outreach to underrepresented populations when hiring staff.

4. Rising employee benefit costs are a financial risk

What is the condition?

Risk:

The cost of benefits is rising, both for the City and for employees.

Human Resources manages the City's benefits provided to employees and their families. Benefits include:

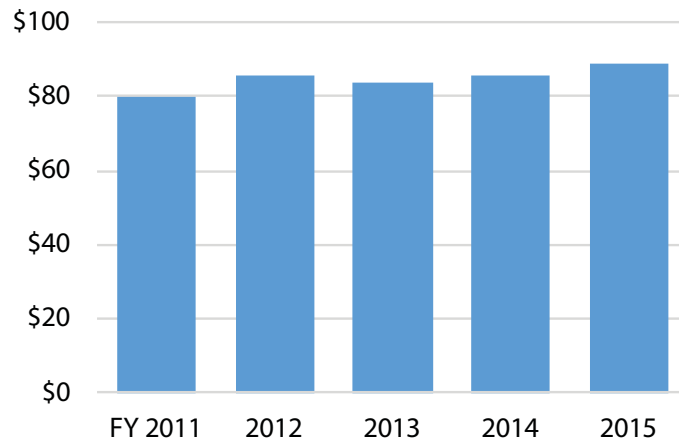
- Medical, dental, and vision coverage, which is also offered to retirees
- Life insurance and long-term disability insurance
- Flexible spending accounts, which allow employees to set aside earnings tax-free for medical expenses and for dependent care
- An employee assistance program, which provides counseling and referrals for a range of issues, such as substance addiction, legal issues, personal wellness, and family situations
- A deferred compensation plan

The City also offers transportation incentives, managed by the Transportation Bureau.

Human Resources offers a variety of health plans, including self-insured plans and Kaiser Permanente plans. Human Resources manages the funds for the self-insured plans and manages the contracts with Kaiser and other providers. About 1,900 employees participate in the Kaiser plans and 3,600 employees participate in City-insured or City-administered plans.

The cost of benefits has risen in recent years, both for the City and for employees. The City spent \$89 million in FY 2015 on benefits, which includes the City's share of premiums for health, dental, vision, life, and long-term disability insurance. This was 11 percent more than four years prior (FY 2011), or an average annual increase of 2.7 percent, above inflation. This trend of increasing personnel benefit costs is not unique to the City; many other employers across the country face increased costs.

Figure 7 City spending on benefits increased 11 percent over 5 years
(millions, adjusted for inflation)



Source: Auditor analysis of financial data

Note: Includes health, dental, vision, basic life, basic long-term disability. Excludes employee premiums, transportation subsidies, employee assistance program.

Premiums paid by employees for bundled medical, dental and vision coverage also increased from FY 2013 to FY 2015.

- Employees paid \$88 per month for Kaiser family coverage in FY 2013, compared to \$93 in FY 2015, nearly a 6 percent increase.
- For the self-insured health plan bundle, premiums increased 9 percent from \$84 to \$92 for family coverage. Premiums for the self-insured plan could have risen even higher, but Human Resources reduced the increases in some years by using money left over from previous years in the health insurance operating fund.

Why is this important?

Benefits are crucial in attracting and retaining employees and are considered part of total compensation. Employees generally care about the level of coverage they get from their benefits, and the costs that they have to bear.

From the City's perspective, rising benefit costs threaten to crowd out other City services. Benefit costs are significant, making up about 5.2 percent of the City's non-capital expenses in FY 2015. Five years ago, that share was 4.9 percent. We estimate the City spent about \$15,000 in FY 2011 per regular employee, compared to \$17,000 in FY 2015, a 13 percent increase.

What has Human Resources done to address risk?

Human Resources staff are monitoring benefit costs. The Bureau said the City was able to keep costs down by choosing to maintain self-insurance for health care as well as governing with a labor-management committee. They also explained that the level of benefits is provided by collective bargaining agreements and City Council direction. Human Resources also said they have managed the health insurance costs without substantial changes in the plan design – they have kept out-of-pocket costs to employees steady.

For many years, the City has offered wellness programs to help employees maintain healthy lifestyles and get support for chronic health conditions.

What could be done to mitigate the risk?

Human Resources said it has already taken all mitigating actions necessary. Leaving aside drastic changes to the level of benefits and way of funding health care, Human Resources could continue to focus on and further strengthen preventive health care to save on potential future costs. Each health plan already offers a wellness program to help employees maintain healthy lifestyles and get support with chronic health conditions. Services include wellness exams, tobacco cessation programs, nutritional counseling, and behavioral counseling. In addition, Human Resources could continue to monitor benefit costs.

5. Staff turnover rates and reasons for leaving are unknown

What is the condition?

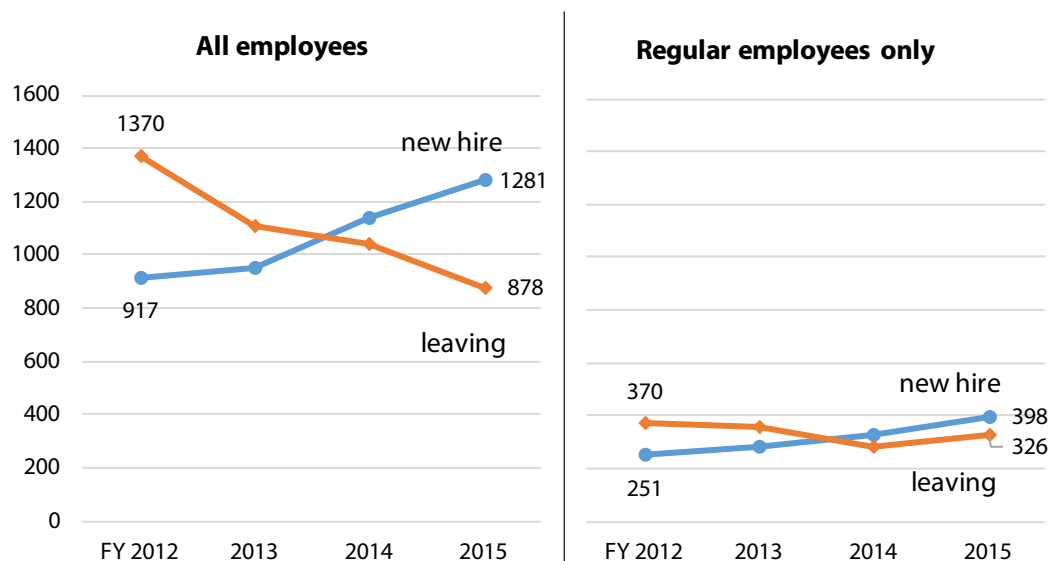
Risk:

Human Resources does not share with City bureaus the data it has about numbers of staff leaving, nor does it conduct exit interviews. City leaders have to manage their workforce planning without information from Human Resources.

Human Resources does not conduct workforce planning for the City, seeing this as each bureau’s responsibility. Human Resources could not provide the number of staff leaving the City, nor provide staff turnover data. Human Resources does not conduct exit interviews to find out more about City employees’ reasons for leaving and does not know if bureaus are conducting exit interviews.

We estimate that more people left City employment than joined it in fiscal years 2012 and 2013. Since then, we estimate the City is hiring more new staff than the number leaving.

Figure 8 New hires and employees leaving (estimate)



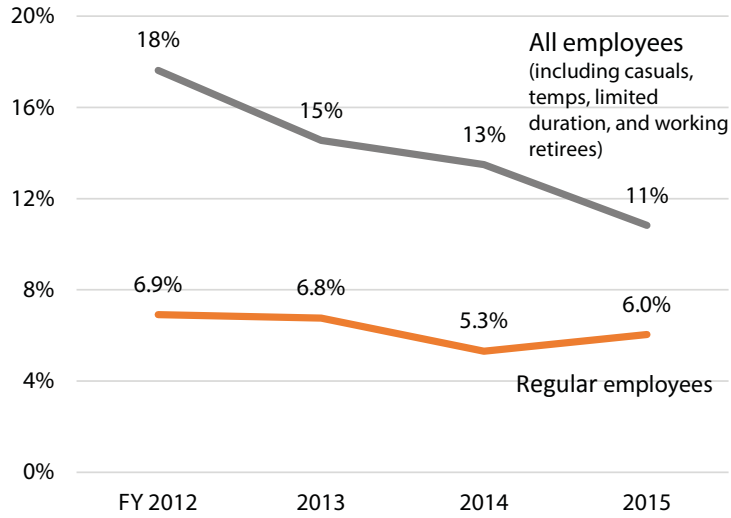
Source: Audits Services analysis using Human Capital Management payroll staff number data as of June 30 of each year.

Note: Regular employees include at-will, executive, and elected officials, but exclude temporary appointments, casual employees, limited duration employees, and working retirees.

Turnover = number of separations from City employment divided by the total number of employees for a given time period, expressed as a percentage.

We estimate the City's total staff turnover rate declined in the last four fiscal years from 18 percent to 11 percent. This is a lower rate than the national annual turnover rate for state and local government, which trended up to 20 percent in 2015, according to the U.S. Department of Labor.

Figure 9 City staff turnover



Source: Audits Services estimate using Human Capital Management staff number data as of June 30 of each year.

Note: Regular employees include at-will, executive, and elected officials, but exclude temporary appointments, casual employees, limited duration employees, and working retirees.

Workers leave employment for different reasons. They may have reached retirement age or may be unsatisfied with pay and working conditions in their current job. The City's Human Capital Management system contains data with reasons for staff leaving, such as retirement, separation, or layoff. However, Human Resources does not gather or analyze this data.

Why is this important?

Workforce planning is essential for government agencies to identify and develop the future workforce needed to provide sufficient levels of public services. Strategic workforce planning is most likely to succeed if it is led by human resources management.

For managers to improve staff retention, they need to know why employees are leaving. A high staff turnover percentage means that many employees are joining and leaving, which can affect the delivery of services to City residents. Turnover is costly, including the overtime paid to employees who have to cover for those who have left.

It is common practice for human resources departments to calculate and report their organizations' turnover rate.

What has Human Resources done to address risk?

Human Resources management said there are few valid conclusions to be drawn from turnover numbers without conducting exit interviews.

In July 2014, Human Resources gave City bureau directors a list of the number of employees in each classification position who were within three years of being eligible to retire. It was left up to the bureau directors to identify the individuals involved and to plan how to manage the workforce.

What could be done to mitigate the risk?

Human Resources could improve reporting to bureau directors and elected officials from existing data about the employees who could retire, and the number and rate of employees who retire, resign, or have been dismissed. Human Resources could also investigate ways to learn why departing employees left.

6. Senior managers of bureaus are outside the Civil Service system

What is the condition?

Under City Charter, most City employees are members of the Civil Service, also known as the classified service.

This Civil Service protection should give City government continuity in its workforce, avoiding the upheaval of dismissal for political reasons after elections or when the mayor assigns bureaus to new commissioners.

However, some City employees in leadership positions are not in the Civil Service, including all elected officials and officials appointed by the City Council, the City Attorney, and members of boards and commissions. Portland voters amended City Charter in 2000 to exempt bureau directors from Civil Service. In addition, at the recommendation of the Director of Human Resources, and with approval of Council by ordinance, employees may be excluded from Civil Service if they are in a classification with a major role in the formulation of policy that requires the exercise of independent judgment.

Bureau director recruitments do not have to follow the Civil Service merit principle for recruiting staff. The City does not require open recruitment with national searches or a competitive application process for bureau director jobs. Nine of the City's 23 bureau directors as of June 30, 2016, including interims, were appointed to their jobs by members of City Council or the Chief Administrative Officer without an open, competitive recruitment. Portland's Citywide Equity Committee has expressed concern about selection processes that favor familiar and/or connected candidates.

Fourteen of the current bureau directors were hired through an open recruitment. Seven of the 23 bureau directors had previous experience working for the City.

Risk:

Bureau directors and senior managers are outside the Civil Service, so they can be dismissed "at will." This has led to high turnover rates in recent years, which can disrupt the performance of their bureaus.

Some are appointed without a competitive recruitment, so the City may not get the most qualified people.

What is the Civil Service?

Civil Service status protects permanent employees from serious discipline or dismissal without cause.

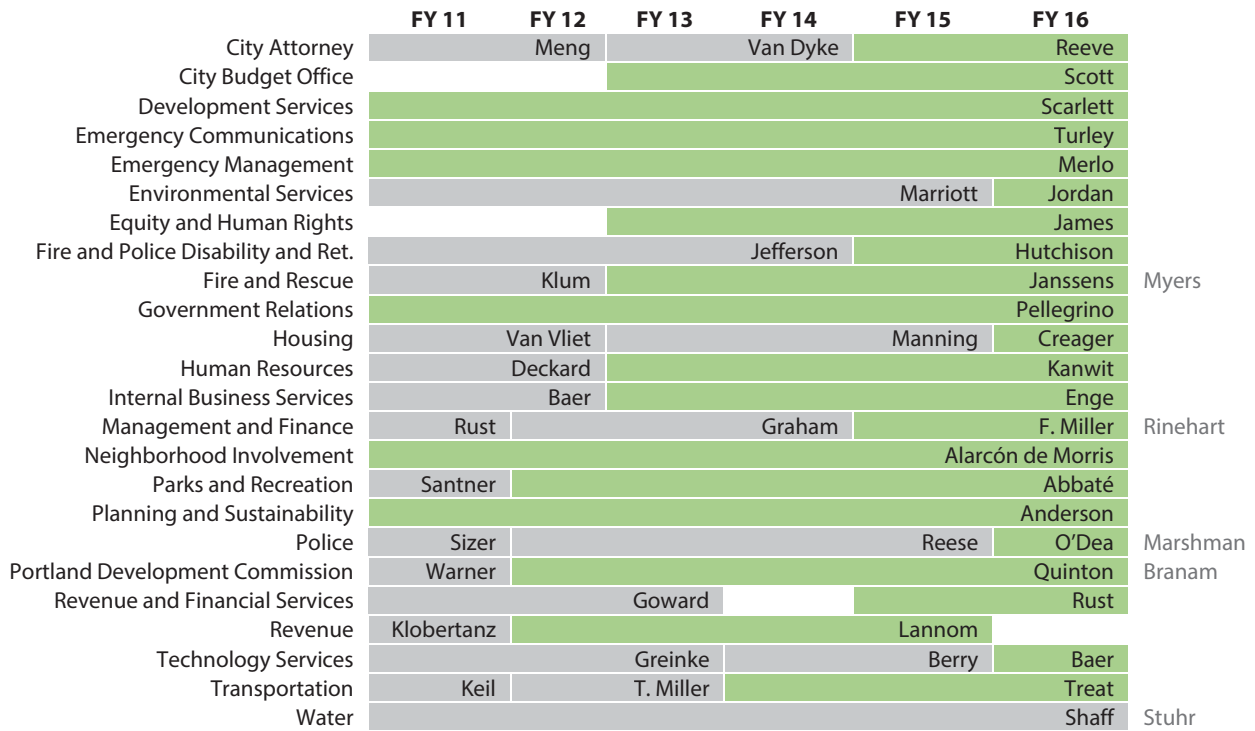
The Civil Service merit principle for recruiting staff means that appointments and promotions are made solely on the basis of demonstrated merit and fitness.

The Civil Service was created to prevent appointments to government jobs for political or personal favor.

Why is this important?

At the levels of management where strategic thought and a degree of independence is needed, the City has managers who serve at the will of their Commissioner. A change of leadership can disrupt an organization. There has been significant turnover of City senior staff over the last six years. At its highest, in FY 2011, 27 percent of bureau directors separated from the City. We calculate that the City lost bureau directors at nearly twice to three times the estimated turnover rate for regular employees from FY 2012 to FY 2015.

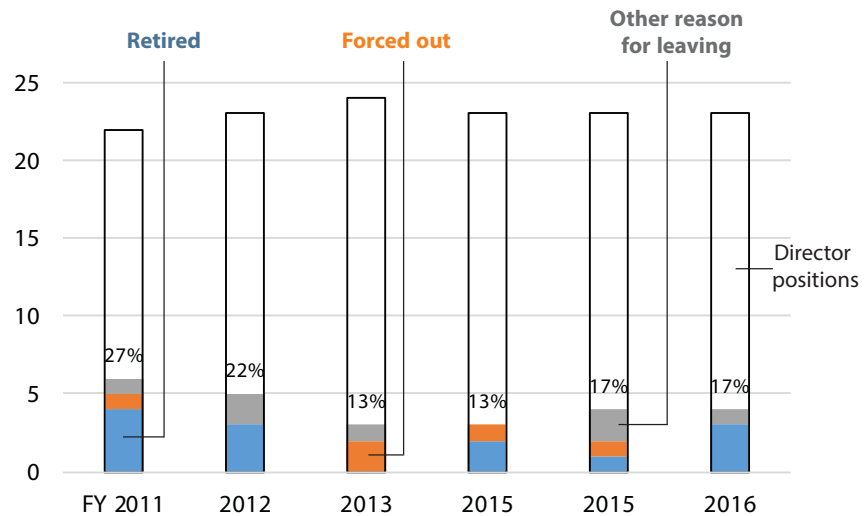
Figure 10 Bureau directors since FY 2011: 24 bureaus had over 45 directors in six fiscal years



Source: Auditor analysis of City historical documents, and media reports.

Note: Bureaus listed by current name. Directors' start and end dates are shown at closest fiscal year (FY) end. Blank spaces denote bureau director positions that did not exist at that time. There was no Chief Financial Officer during FY 2014 to direct financial services.

Figure 11 High turnover among bureau directors



Source: Auditor analysis of City historical documents, and media reports.

Note: Includes Portland Development Commission.

When the City hires senior managers to positions not in the Civil Service without a competitive recruitment or the need to follow the merit principle, the City runs the risk of not hiring the most qualified people with the best experience.

During open, competitive recruitments, hiring candidates with previous City experience may provide the advantage of knowing how the City works, so they can become effective in their new position quickly. Or it may mean the City is wasting the time of its recruiters and external candidates if the selection was already pre-determined.

The Human Resources Administrative Rule on discipline does not apply to these senior managers, because they are exempt from the classified service. The discipline rule lists prohibited activities that would give cause to discipline or dismiss employees in the Civil Service, such as incompetence, inadequate performance, and discourteous treatment of the public or other employees. Bureau directors have employment agreements which define “for cause” as grounds for termination. Director employment agreements do not include all the causes for discipline that apply to other City employees.

What has the City done to address risk?

To compensate bureau directors for being employed at will, City Council revised the rule on compensation to give a severance package to any bureau director who is dismissed without cause within three years of taking the job. Severance amounts range from six months' salary to one year's salary. Bureau directors' annual salaries range from \$102,000 to \$203,000.

Recent changes to City policy to promote equity and inclusion do not apply the new standard to direct appointments of bureau directors. A Commissioner-in-charge can still directly appoint a bureau director without interviewing multiple candidates.

What could be done to mitigate the risk?

Human Resources could regularly evaluate the effects of the practice of appointing senior managers at-will – specifically the effects of non-competitive recruitments of bureau directors – and assess the outcome of the Charter change that removed bureau directors from the Civil Service.

Other risks

In addition to the six major risks in this report, we also identified the following human resources management risks that Human Resources and other City bureaus should consider. These risks may become areas of focus for future audits.

Citywide training and staff development may not meet City's needs

Human Resources provides training and professional development services to its own staff and to staff in other bureaus, but it lacks resources to provide these services consistently and to meet training and development needs. Professional development and ongoing staff training is necessary to educate staff on values and culture as well as providing opportunities to support career development. In order to lessen the fragmentation of training resources, Human Resources enabled employees to register for course offered by other bureaus. Human Resources noted that budget cuts affected its ability to provide services in this area.

Some City employees do not receive a required annual performance evaluation

Human Resources requires annual performance evaluations for all City employees, but some bureaus don't comply with the rule. Regular reviews of an employee's performance are regarded as best practice by human resources managers. Employees may perform better and be more engaged in the workplace if they have a sense of how they are performing.

When performance evaluations are not done or are not forwarded timely to Human Resources, non-represented staff may be denied merit pay increases. The City Ombudsman received a complaint that some managers do not give timely performance reviews. Human Resources only processes a merit pay increase when it receives the performance evaluation before the end of the fiscal year. There appears to be no uniform consequence for supervisors if they fail to conduct annual performance evaluations on time or at all.

When non-represented employees do not get merit pay increases because their managers did not review their performance on time or are late giving the results to Human Resources, the inconsistent treatment defeats the motivational aspect of performance reviews.

Job position descriptions may not accurately reflect the duties performed by employees

The Director of Human Resources, in consultation with bureau managers, is responsible for the administration and periodic review of all City positions. This is commonly known as the Classification Plan, which groups all classified service job positions – excluding elected officials and board members – into classifications based on their duties, authority, and responsibilities. Current job classifications may be outdated and do not always accurately reflect the positions. The City may not be competitive in recruitment and retention of staff, which may also affect staff morale, promotions, and turnover. Human Resources hired consultants in June 2014 to perform the first classification and compensation study for the City’s non-represented staff since 1991-92. This study should be completed at the end of May 2017.

Personal information of City employees and customers might not be protected

The City retains sensitive information about employees and customers and is required to manage it. This includes information such as social security numbers, health records, and addresses. Currently, the City does not have a process to determine whether sensitive information is protected and safeguarded, and there is no clear direction to bureaus as to how to safeguard information. City policy states that bureaus are responsible for safeguarding information and ensuring controls are in place. However, there is no coordinated Citywide approach to ensuring all sensitive information is protected and properly managed. The City is responsible to safeguard employee and customer information in order to protect against identity theft, fraud and privacy violations. A Citywide compliance workgroup has been established to provide guidance to bureaus on managing personally identifiable information. Human Resources does not have a representative on this work group.

Human Resources does not track outcomes in its performance measures

Human Resources does not measure the results of important aspects of its work. This may be because its mission statement – “Knowledgeable | Helpful | Responsive” – does not tie its activities to desired outcomes. It also does not report some results in its strategic plan. Without such information, it is hard for Human Resources to manage its staff and resources and to measure improvements to its performance. It is also hard for Council and the public to understand the effectiveness of the City’s personnel management.

For the City budget, Human Resources performance measures mostly count staff activities and workload, such as the number of employment applications received or the number of payroll checks issued manually. Only in a few limited areas does Human Resources track its effectiveness. One example of an effectiveness measure is the percent of diverse applicants per recruitment. To track efficiency, Human Resources calculates the number of City employees per Human Resources employee. It also tracks the average cost of providing Human Resources services for each City employee.

Human Resources staff said it has been difficult to obtain data regarding the workforce that we believe should be routinely and easily available, such as recruitment timeliness or staff turnover.

We are sending Human Resources management in a separate communication a list of performance measures that would be suitable for a human resources department to use to measure the outcomes of its work and its effectiveness. We suggest that Human Resources use these measures as a starting point to set targets, track progress towards goals, monitor staff performance, and compare itself against other organizations. These performance measures are listed in Appendix A.

Objective, scope, and methodology

Our audit objective was to assess risk in the City's human resources management.

We broadly reviewed the human resources processes in the City and the Bureau of Human Resources, including its mission, objectives, tasks, and organizational structure. We conducted interviews with managers and staff from the Human Resources as well as with a sample of staff in other bureaus who use its services. We reviewed numerous reports and documents, including the budget, strategic plan, policies, organization charts, administrative rules, performance data reports, and prior management analyses of Human Resources. We compared activities to stated goals and City charter and code and applicable laws/regulations. We assessed internal controls over Human Resources' activities, including its databases and software systems. We reviewed management best practices. We reviewed previous audits. We obtained reports for revenues, expenses, number of employees, and recruitments and we estimated the timeliness of hiring, turnover, and benefits participation. We express dollar amounts in 2015 dollars to adjust for inflation.

We obtained demographic data from the U.S. Census Bureau's American Community Survey, specifically the 2010-2014 5-year survey. The survey asks people separately about their race and ethnicity. For simplification, in our charts, we show each race without people of Hispanic/Latino ethnicity. We then show people of Hispanic/Latino ethnicity of any race.

We conducted this performance audit in accordance with generally accepted 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.

APPENDIX A

Appendix A

The following performance measures would be suitable for a human resources department's internal use and for reporting to its customers and stakeholders. Human Resources could use these measures as a starting point to choose performance measures that will allow the Bureau to set targets, track progress towards goals, monitor staff performance, and to compare itself against other organizations.

Outcome Measures:	Effectiveness Measures:	Efficiency Measures:
<ul style="list-style-type: none">• Employee satisfaction• Vacancy rate• Employee turnover rate• Percent of workforce that is diverse• Retention of new hires• Resolution of claims/grievances/etc.	<ul style="list-style-type: none">• Percent of customers rating a Human Resources service as good or very good• Participation rates in trainings or benefits• Percent of transactions completed on time or without error	<ul style="list-style-type: none">• Timeliness to complete transactions• Transactions per analyst• Cost per transaction

RESPONSE TO THE AUDIT

Office of Management and Finance

Fred Miller, Chief Administrative Officer

October 3, 2016

TO: Mary Hull Caballero, City Auditor
Drummond Kahn, Director of Audit Services

FROM: Anna Kanwit, Director Bureau of Human Resources
David Rhys, Assistant Director Bureau of Human Resources

SUBJ: Audit of Human Resources-Risks in Managing the City's Workforce

Thank-you for the opportunity to review and comment on the final Risk Assessment. We also appreciated the opportunity to provide input throughout this process and your input on performance measures.

There remain a few areas of concern for us as well as some inaccurate or incomplete findings.

Section One: Split Responsibilities

There are two areas of clarification: First, the Human Resources Business Partners do assist bureaus in the selection process, by helping to draft interview questions and in the reference check process to name two examples. Second, we strive to ensure consistency in the discipline process through consultation with the hiring manager about the appropriate level of discipline based on a variety of factors and review of the City's discipline log to determine how similar cases have been addressed.

We appreciate the acknowledgment that BHR takes on City-wide projects—this is central to our mission. BHR creates and implements many city-wide projects and initiatives, too numerous to include in our response, but there are a few in addition to the ones you note, we believe address some of the risks, such as mandatory trainings for managers and supervisors that also includes discipline training, implicit bias training for all interview panels and our work towards implementing City Council's resolution that the City become a model employer of persons with disabilities.

Section Two: Recruitments

Although BHR cannot control the length of time a hiring manager in a bureau takes to complete the hiring process we generally agree more needs to be done in this area. We are looking at Neo Gov and how to use the system more efficiently, generate useful reporting tools and work flow overall. That said, we are understaffed in this area, which is problematic for our customers as well as for BHR recruiters who work long hours.

Section Three: Workforce Diversity

We agree there is considerable work to do to ensure our workforce reflects the communities we

Charlie Hales, Mayor

We are an equal opportunity employer

Please notify the City of Portland of the need for ADA accommodations no less than five (5) days prior to any City-sponsored event by contacting the Bureau of Human Resources at 503-823-3572 or the City's TTY at 503-823-6868.



serve. City Council's adoption of the Employer of Choice resolution identifying the City as a values based employer, including our values around equity, inclusion and diversity, is an important step. We also appreciate the mention of available workforce data as that is a more accurate figure to assess the diversity of the City's workforce—we are making progress, but as noted, there is much more to be done.

Section Four: Employee Benefits Costs

The second bullet under figure 7 may be inaccurate or at least is misleading, as reserves were not used in fiscal years 2013-14 and 2015-2016. Reserves were used in FY2012-2013.

Section Five: Staff Turnover Rates

As part of the City becoming an Employer of Choice, BHR will recommend that bureaus conduct entry interviews (why did you come to work for the City?), stay interviews (why are you staying at the City?) and exit interviews (why are you leaving the City?). This type of data can assist in recognizing trends, both positive and negative. Moreover, this information will provide a much more robust view of our workforce than simply the reasons a person leaves. Mining turnover data alone is no longer considered a best practice. That said, when an employee voluntarily resigns an exit interview is a good idea as that information can help a bureau determine if changes are needed. BHR encourages such interviews and the Human Resources Business Partners are available to assist with these interviews.

Two additional comments: The Human Resources Business Partners assist bureaus with succession planning. This is one of their key roles. Second, BHR cannot provide individualized data regarding employees who are eligible to retire; that opens the City to liability for age discrimination.

Section Six: Senior Managers Outside Civil Service

Two points of clarification: One, the changes in the City Charter regarding exempt positions were implemented by a vote of the citizens of the City. Two, the designation by ordinance of positions exempt from the City Charter is also governed by the Charter. Only those positions where an essential function includes development of policy with City-wide impacts may be designated as exempt (not simply the exercise of independent judgment).

Overall, we disagree with many of the assumptions and conclusions in this section; notably that exempt managers do not perform at the highest levels due to a lack of civil service protections (there is little, if any, data to support the auditor's concern here) and second, that a 2000 change in City Charter created turnover. A number of bureau directors were, and are, retirement eligible. Others left for new opportunities and some for a change in pace from a job that is highly demanding.

Other Risks:

One point of clarification. Classification specifications are intentionally broad and in the absence of position descriptions may not sufficiently describe the work. As a critical part of the class/comp study every non-represented employee was required to complete a position description. These are accurate reflections of the work and should be updated at least annually.

Cc: Mayor Charlie Hales
Fred Miller, CAO

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Human Resources: Risks in managing the City's workforce

Report #465, October 2016

Audit Team: Fiona Earle, Alexandra Fercak,
Minh Dan Vuong, Bob MacKay, Janice Richards,
Ariana Denney, Erin Dickmeyer, Luis Sandoval

This report is intended to promote the best possible management of public resources. This and other audit reports produced by the Audit Services Division are available for viewing on the web at: www.portlandoregon.gov/auditservices. Printed copies can be obtained by contacting the Audit Services Division.

Mary Hull Caballero, City Auditor
Drummond Kahn, Director of Audit Services

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