
PERFORMANCE AUDIT OF THE CITY'S STRATEGIC HUMAN CAPITAL MANAGEMENT

The City Should Substantially Strengthen its Human Capital Management by Adopting a More Data-Driven Approach to Monitoring and Communicating Core Metrics of its Workforce and Responding Strategically to Workforce Needs

Office of the
City Auditor

City of San Diego



Performance Audit of Strategic Human Capital Management

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Why OCA Did This Study

Within the City of San Diego, personnel expenditures represent about 70 percent of total expenditures for the City's General Fund. Personnel expenditures for the City's more than 11,500 employees totaled approximately \$1.5 billion in 2019.

Taking a data-driven, strategic approach to human capital management is critical given the City's limited resources and the wide range of services that employees provide to City residents. In this audit, we evaluated how the City is monitoring and responding to important metrics related to its large and varied workforce.

What OCA Found

Given its unusual market position, limited resources, and wide-ranging strategic goals, the City should strengthen its planning, monitoring, and communication capabilities regarding its most expensive and valuable asset—its \$1.5 billion workforce.

Finding 1: We found that widespread uncompetitive compensation poses a growing short- and long-term risk to the City's ability to maintain and attract a high-quality workforce for providing public services, and has likely contributed to several negative effects on the City workforce and public services, including:

- Increased recruitment and retention challenges;
- Damage to the City's brand as an employer;
- Employee dissatisfaction; and
- Increased risk of fraud, waste, and abuse.

Finding 2: While the City has taken some steps towards monitoring key workforce metrics, we found that the City's overall monitoring and reporting of workforce data can be substantially improved. For example, the City has not comprehensively tracked or analyzed overall turnover rates, voluntary turnover ("quits") rates, job classifications with the highest turnover or quits rates, and recruiting trends.

Finding 3: One control the City has to mitigate issues of recruitment and retention is the Special Salary Adjustment (SSA) process. While this process is strategically-intentioned, its effectiveness is limited by several methodological and process issues. As a result, the Personnel Department's turnover calculations cannot be benchmarked with other organizations, and the City may be under-identifying or mis-identifying job areas facing recruitment and retention challenges.

Video circulated to employees Citywide (August 2019):
City of San Diego Celebrates Employee Appreciation Month



City of San Diego Celebrates Employee Appreciation Month
Unlisted

Source: <https://www.youtube.com/watch?v=bWDaQwjCOyU&feature=youtu.be>

What OCA Recommends

As the City's budgetary situation rapidly shifts in the current COVID-19 emergency, data-driven workforce management becomes even more critical, as City leadership must make increasingly difficult decisions about how to allocate the City's limited and declining resources.

We make 14 recommendations to mitigate some of the issues outlined in the report and ensure the City can support and strengthen its workforce—while planning for fiscal sustainability and high-quality public services.

Key recommendations include:

- Developing a Compensation Strategy
- Expanding relatively low-cost solutions that employees still highly value, such as increasing flex work opportunities
- Requiring HR and Personnel to jointly present an annual workforce report to City leaders and the public; identifying key City positions facing challenges related to recruitment, retention, and other metrics
- Ensuring that information related to compensation increases for employees is put into comparative context and made publicly available
- Ensuring accurate calculations of turnover and quits rates which conform with standard methodology employed by the U.S. Bureau of Labor Statistics

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THE CITY OF SAN DIEGO

April 23, 2020

Honorable Mayor, City Council, and Audit Committee Members
City of San Diego, California

Transmitted herewith is a performance audit report on the City's Strategic Human Capital Management. This report was conducted in accordance with the City Auditor's Fiscal Year 2019 Audit Work Plan, and the report is presented in accordance with City Charter Section 39.2. The Results in Brief are presented on page 1. Audit Objectives, Scope, and Methodology are presented in Appendix B. Management's responses to our audit recommendations are presented after page 131 of this report.

We would like to thank staff from the Personnel, Human Resources, Finance, Information Technology, Police, and Fire-Rescue Departments, as well as the more than 430 supervisors, managers, and executives who took time to complete our Citywide Management Survey, for their willingness to share their perspectives on issues affecting San Diego's workforce, including what the City is doing well and how it can improve its human capital management. All of their valuable time and efforts spent on providing us information is greatly appreciated. The audit staff members responsible for this audit report are Nathan Otto, Geoff Teal, and Andy Hanau.

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Results in Brief

A wide range of modern management literature refers to employees as an organization's most important asset, a sentiment echoed by leaders within the City of San Diego. According to research by Gallup Workplace, just a few decades ago, tangible business assets accounted for a majority of organizational value; today, they have been supplanted by intangible assets such as employee talent. In many organizations, compensation is one of the largest expenditures, representing 70 to 80 percent of costs.

Indeed, within the City of San Diego, personnel expenditures represent about 70 percent of total expenditures for the City's General Fund. Personnel expenditures for the City's more than 11,500 employees totaled approximately \$1.5 billion in 2019.

While there are different opinions about organizational size or workforce management strategies, many best practices in human resource management emphasize the importance of examining, linking, and acting on characteristics and patterns within an organization's workforce—its most important asset—to help the organization carry out its wide-ranging strategic goals. This approach is referred to as Strategic Human Capital Management (SHCM).

Strengthening such an approach is in keeping with the City's Strategic Plan, which recognizes "that an engaged City workforce is the key to quality customer service," identifies both "customers and employees as partners," and seeks to "measure results and seek improvement in everything we do."

As the City's budgetary situation rapidly shifts in the current COVID-19 emergency, data-driven workforce management becomes even more critical, as City leadership must make increasingly difficult decisions about how to allocate the City's limited and declining resources. We hope this report and our recommendations provide a valuable resource to help the City navigate complicated workforce issues as it responds to this crisis, and lays the groundwork for a more robust, strategic, and data-driven approach to workforce management in the future.

Finding 1: Despite Years of Steady Revenue and Expenditure Growth, San Diego Lags Far Behind Other Cities in Compensation Competitiveness and Should Develop a Strategy to Mitigate Growing Risks to its Workforce and the Various Public Services it Provides

Although the City provides many different types of compensation and benefits, overall compensation levels for most positions in the City of San Diego fare poorly in a comparison to 24 other California cities and jurisdictions, according to recent salary studies conducted on behalf of the City. As of 2019, of the various represented employee groups, only the Police Officers Association (POA) was close to being competitive with the other California cities. All other groups were 14 percent or more below the median levels of the benchmark cities. See **Exhibit 1**.

Lagging compensation competitiveness is not a common compensation strategy among employers. However, the City has not developed a compensation strategy, and has not sufficiently planned for foreseeable personnel expenditures, despite the expiration of voter-enacted pay freezes and continued years of growth in overall revenues and expenditures.

We found that widespread uncompetitive compensation poses a growing short- and long-term risk to the City's ability to maintain and attract a high-quality workforce for providing public services and has likely contributed to several negative effects on the City workforce and public services, including:

- Increased recruitment and retention challenges;
- Damage to the City's brand as an employer;
- Employee dissatisfaction; and
- Increased risk of fraud, waste, and abuse.

To mitigate some of these effects and ensure the City can support and strengthen its workforce—while planning for fiscal sustainability and high-quality public services for taxpayers, residents, and visitors—we make several recommendations, including: developing a Compensation Strategy, improving forecasting procedures that result in more accurate expenditure projections, strengthening communication of existing compensation and benefits to employees, and identifying relatively low-cost solutions that employees still highly value, such as increasing flex work opportunities.

Exhibit 1

Groups with the Least Competitive Compensation Have Had the Highest Rates of Employees Leaving Voluntarily

City of San Diego Employee Organization	2015*		2019		Quits Rate [‡] Annual Average (2015 - 2019)
	New Hire	5-Year Employee**	New Hire	5-Year Employee**	
DCAA (Deputy City Attorneys)	-37%	-50%	-26%	-32%	10.1%
MEA (Professionals and office workers)	-23%	-34%	-20%	-26%	6.1%
Local 127 - AFL-CIO (Skilled and technical workers)	-19%	-30%	-17%	-22%	2.8%
Local 911 (Lifeguards)	-19%	-22%	-23%	-22%	2.9%
Local 145 (Firefighters)	-7%	-16%	-14%	-14%	1.6%
POA (Police)	-5%	-12%	+1%***	-4%***	3.2%

Notes: Percentages shown are the percentages above/below the total compensation median compared to 24 other benchmarked cities and jurisdictions throughout California.

Unclassified employees who are not represented by an employee labor group were not included in this table since they were not included in the City's salary surveys. Their average annual quits rate from 2015-2019 was approximately 8.1%.

The studies used a number of benchmark classifications within each labor group; e.g. the 2019 studies compared 72 different benchmark classifications within MEA, 28 classifications within Local 127, 10 within Local 145, 6 within POA, 2 within DCAA (Deputy City Attorney 2 and 3), and 1 within Local 911 (Lifeguard 2).

*The Police Officers Association was not included in the City's 2015 salary study but had a separate, similar study done in 2017 as part of a contract renegotiation. Those 2017 results are the -5% and -12% shown in the left-most columns for POA.

**The salary studies for Police also used a comparative assessment for an 8-year employee instead of a 5-year employee. Those figures are the -12% and -4% figures in the POA row.

***In January 2020, the Police received another 5% salary increase, which is not reflected in the competitiveness figures in the 2019 salary study or table above.

‡ We use the terms “Quits” and “Quits rate” numerous times throughout the report. “Quits” is not used in a pejorative sense; it is a technical term referring to voluntary separations other than retirements. See U.S. Bureau of Labor Statistics: <https://www.bls.gov/jlt/jltdef.htm>. This is an important type of turnover, as the employee is taking their talent elsewhere when it could have been kept “in house.” Additionally, voluntary quits can also be much more disruptive than a retirement, since they may be harder to anticipate.

Source: OCA, based on analysis of City separations data and salary surveys conducted on behalf of the City by Koff and Associates.

Finding 2: The City Can Strengthen its Efforts to Monitor and Communicate Core Metrics of its Workforce, in Order to Achieve its Broad Strategic Objectives and Provide Wide-Ranging Public Services

Despite its unusual market position discussed in Finding 1, the City has not historically monitored what effects its lagging compensation competitiveness and switch from traditional defined benefit pensions may be having on its workforce. In addition, compensation is just one of many metrics the City should be monitoring and responding to. To that end, we found the City can substantially strengthen its overall strategic human capital management—specifically, areas relating to monitoring and communicating trends related to turnover, vacancies, employee sentiment, and others.

This approach is important in general, as personnel expenditures represent about 70 percent of total expenditures from the City's General Fund. But additionally, evidence-based analysis is important in order to evaluate the effects of major workforce changes; it can also help an organization identify emerging risks, as well as weigh trade-offs and recruitment and retention challenges among its different employee groups, given the City's broad strategic objectives and wide-ranging public services.

As a specific example, after years of frozen pay, in 2017 the City approved large pay raises to Police officers. Representatives from the Human Resources Department (HR) and the Police Department (Police or SDPD) described a recruitment and retention crisis, as uncompetitive pay failed to keep up with other law enforcement agencies. However, while officer separations and vacancies had been increasing at the time the raise proposal was being discussed, we found the turnover rate

and the quits rate for Police was actually significantly below the City's average rate and had been for many years.

The importance of Police work as a critical responsibility of the City is codified in City Charter Section 11.1. And of course the Police will focus on their own operational challenges. We found Police representatives to be proactive and data-driven in monitoring their own staffing challenges. However, HR did not publicly provide key elements of advisement or comparative context at the time. Specifically lacking was information or even a reference to how turnover, recruiting, or compensation competitiveness challenges among other groups of City employees or other labor market trends compared to Police's challenges. If that information had been included, it would have shown that, although Police pay was below the median of benchmarked jurisdictions, other City of San Diego employee groups actually had much lower rates of compensation competitiveness and much higher rates of turnover and quitting. Additional context would include that turnover rates and recruiting difficulties have been increasing across the public sector in general and that other factors, such as cancelled Police Academies, could be contributing to SDPD's staffing challenges.

We also found that neither HR nor the Personnel Department (Personnel) tracked the effect, if any, of the pay raises on Police officer recruitment or retention. We found that quits rates and turnover rates for Police did show modest decreases after the raises, although, according to SDPD's own internal tracking, the number of officers departing for other law enforcement agencies is essentially unchanged.

While some decentralization of responsibilities and information may confer certain advantages, we found that communication challenges and a lack of strategic guidance appear to have historically hampered the City from taking a more strategic approach to workforce management. However, the City has taken some steps at monitoring some core workforce metrics. For example, it has recently begun monitoring employee satisfaction; it has analyzed compensation patterns, such as its competitiveness, as well as its internal pay equity, and possesses much of the information and capabilities that it needs to take a

more evidence-based approach to its human capital management.

Given its limited resources and wide-ranging strategic goals, the City should strengthen its monitoring and communication capabilities regarding its most expensive and valuable asset—its \$1.5 billion workforce. See **Exhibit 2**. To do so, we make several recommendations, including: formally documenting and supporting HR and Personnel's SHCM-capabilities and efforts currently underway; requiring HR and Personnel to jointly present an annual workforce report to City leaders and the public that identifies key City positions facing challenges related to recruitment, retention, employee satisfaction, and other metrics; and ensuring that information related to compensation increases for employees is put into comparative context and made publicly available.

Exhibit 2

Auditors' Assessment of the City's Strategic Human Capital Metric Monitoring and Analysis

SHCM Metric	HR	Personnel	Performance and Analytics
Overall Turnover Rates	-	Analyzed upon request for certain classifications, but calculated unconventionally (see Finding 3)	-
Overall Quits Rates	-	-	-
Proactive Identification of Job Areas with Highest Turnover or Quits Rates	-	-	-
Cost Estimates Associated with Turnover or Quits	-	-	-
Vacancy Rates	Yes	Yes	Yes
Recruitment Trends	-	-	-
Employee Satisfaction	- Yes	- (Own department only)	Biennial Employee Satisfaction Survey (ESS)
Compensation Competitiveness	Yes	Analyzed upon request for certain classifications	-

Notes: Elements of some metrics may be present (e.g. an individual department tracking their own turnover), but a "-" indicates a metric that the entity listed could not provide or does not actively monitor Citywide.

Source: OCA, based on interviews and review of provided datasets.

Finding 3: The Special Salary Adjustment Process is a Control for Addressing Compensation Competitiveness,

While Findings 1 and 2 describe risks and limitations related to the City's current strategic human capital management, one control the City has to mitigate issues of recruitment and retention is the Special Salary Adjustment (SSA) process. In this process, Personnel reviews recruitment and retention for a

Recruitment, and Retention Issues; However, its Methodology Leads to Undercounting of Turnover, and the Process for Identifying Positions At-Risk is Inefficient and Strategically Erratic

particular job class identified by another City department or employee labor group; Personnel then recommends whether an SSA is needed. The presence of the SSA process is a strategically-intentioned feedback mechanism, although the City is increasingly relying on the process to address its wide-ranging compensation competitiveness issues. Additionally, we found that the SSA methodology used by Personnel undercounts true turnover because many separating employees are excluded and because it does not accurately account for average workforce size.

As a result, Personnel's calculated turnover rates cannot be used to benchmark with other organizations, and stakeholders, such as HR and employee labor groups, stated an inability to replicate Personnel's calculated turnover rates. Further, the City may be under-identifying or mis-identifying job areas facing recruitment and retention challenges. Personnel can help the City strengthen its SHCM capabilities by utilizing a clear methodology that is consistent with standard definitions utilized by the U.S. Bureau of Labor Statistics. Including such an approach would ensure that all parties have a shared set of facts to make difficult decisions about directing limited resources for City employees and public services.

Additionally, neither Personnel nor HR could provide us with any historical analysis regarding recruitment trends for different types of positions in the City. With data provided by Personnel as part of the audit request, we found a wide range in the number of approved applicants per vacancy, with most classifications we reviewed trending downward.

Aside from addressing the analytical issues identified above, relying on departments and employee labor groups to identify classifications with issues and apply for SSAs is inefficient and likely inadequate given the City's broad-based compensation competitiveness issues. For example, under the current process of waiting for departments and labor groups to identify high-risk areas, we found that only 4 of the 20 career-type classified positions with the highest rates of turnover in recent years had an SSA submitted, and only 2 of those were approved. Both Personnel and HR can help the City strengthen its SHCM

capabilities by proactively identifying high-risk areas within the City's workforce.

We make several recommendations, including that Personnel reform its calculation methodology to ensure accurate calculations of turnover and quits rates that conform with standard methodology employed by the U.S. Bureau of Labor Statistics; develop a metric to identify recruitment trends over time for different types of positions in the City; and assigning Personnel and HR responsibility for proactively identifying classifications throughout the City with recruitment or retention challenges.

Adopting a more proactive and strategic approach to the SSA process can help the City accurately identify and adapt to changes in its workforce, which can help the City make difficult decisions about directing limited resources to ensure quality public services for taxpayers, residents, and visitors.

Exhibit 3

Number of Special Salary Adjustment Applications and Approvals by Year

Year	Number of SSA Applications	Number of SSAs Approved
FY13 through FY16	0	-
FY17	1	1
FY18	38	16
FY19	19	7

Source: OCA, based on data provided by the Personnel Department.

Review of Management's Response

We appreciate the cooperation of City management and staff over the course of this audit and bring the following issues to the reader's attention pursuant to requirements under Government Auditing Standards.

We made a total of 14 recommendations to address the various issues we identified and improve the City's ability to make more informed, strategic decisions regarding its workforce. Given the City's large size and organizational structure, implementing these recommendations in many cases will require collaboration and coordination across multiple Mayoral departments, such as

Human Resources, Finance, and Performance and Analytics, as well as the independent Personnel Department.

Each of these departments provides unique and critical skills and perspectives to the City's efforts to manage its workforce. Over the course of the audit, we observed that collaboration and coordination was increasing across these various departments, which will serve the City well as it seeks to take a more data-driven approach to workforce management.

To that end, the management responses from the City Administration (Mayoral departments) and Personnel indicate that they agree with and plan to fully implement 10 of our 14 recommendations.

Much of the City Administration's management response focuses on the difficulty of restoring pay competitiveness because of the City's fiscal challenges. However, another key theme of the report is the importance of data-driven workforce management on a much wider range of metrics beyond compensation. For example, Finding 2 of the report discusses the need to better monitor issues—such as turnover, recruitment trends, and employee satisfaction—and respond to issues proactively. This strategic approach to human capital management is even more important when resources are constrained.

In addition, the management responses expressed disagreement with, or did not address several key aspects of our recommendations. For example:

- While the Personnel Department agreed with our recommendation to collaborate with HR to produce a detailed report on the City's workforce every year, HR only agreed to produce this report every other year. This increases the risk that problematic issues within areas of the City's workforce may not be brought to the attention of the public and decision makers until long after they arise.
- Neither HR nor Personnel indicated that they would proactively monitor and initiate the SSA evaluation process for job classifications experiencing high turnover or recruiting difficulties, creating the risk that

these issues will go unaddressed. As discussed previously and in the report, this approach is inefficient, does not take advantage of HR and Personnel's capabilities, and may lead to the City under-identifying or mis-identifying job areas facing recruitment and retention challenges.

- While the audit identified significant issues with Personnel's methodology for calculating turnover during the SSA process, Personnel did not agree to address a feasible and important element of these issues—specifically, providing a turnover rate and/or quits rate along with its more limited analysis, as well as not referring to its analysis as “turnover.” While we understand Personnel's rationale for utilizing its current methodology, we stand by our recommendation to at least supplement its more limited analysis with the standard methodology for turnover established by the U.S. Bureau of Labor Statistics in order to capture the true turnover rate and allow for benchmarking with other organizations.

We also note that many of management's target implementation dates are set farther into the future than is typical. Of course, the coronavirus pandemic has caused large-scale disruption, and we recognize the urgency and importance of the City's efforts to respond to that challenge. We will work with the City Administration and Personnel during our semiannual recommendation follow-up process to revisit the feasibility of adjusting some of these target implementation dates as appropriate. We believe that fully implementing our recommendations will help the City support and strengthen its workforce—while planning for fiscal sustainability and high-quality public services for taxpayers, residents, and visitors.

The City Administration's management response begins on page 132, and Personnel's response begins on page 141.

Background

Employees are important. Many modern management articles refer to employees as an organization's most important asset, a sentiment echoed by leaders within the City of San Diego.

And employees are expensive. According to the Society for Human Resource Management (SHRM):

In many organizations, compensation is one of the largest costs. In service organizations, it often represents 70 percent to 80 percent of business cost. Adding in the costs of training and other HR management activities, one finds that the HR function often has responsibility for a very large portion of total expenditures—and this portion is growing.

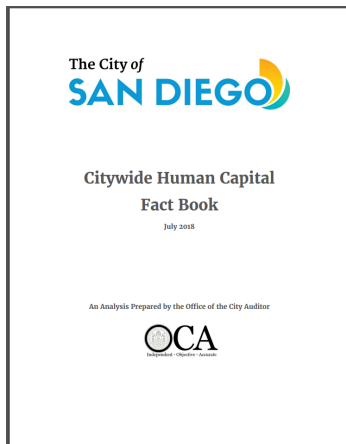
Indeed, within the City of San Diego, personnel expenditures represent about 70 percent of total expenditures for the City's General Fund, at approximately \$1.1 billion per year. Total annual personnel expenditures across all funds for the City come to about \$1.5 billion per year. The City of San Diego is one of the largest employers in the region, with over 11,500 employees doing hundreds of different jobs.

The City has also undergone major overhauls to its workforce pay and benefits, such as replacing traditional pensions with defined contribution plans for most new hires and frozen pay over extended periods for many of its employees. Such reforms are controversial but, most importantly, place the City in an unusual labor market position for attracting and retaining employee talent to accomplish the myriad services the City provides.

While there are different opinions about organization size or compensation strategies, many best practices emphasize the importance of budgeting for your workforce, tracking and communicating key data about your workforce, and using that data to take a strategic approach to questions of employee management. We refer to such an approach as Strategic Human Capital Management (SHCM). SHCM is a data-driven approach examining, linking, and acting on characteristics and patterns

within an organization's workforce—its most important asset—to help the organization carry out its varied strategic goals. Such an approach is fully in keeping with the City's Strategic Plan, which identifies both customers and employees as partners, recognizes “that an engaged City workforce is the key to quality customer service,” and seeks to “measure results and seek improvement in everything we do.”

With such a large and varied workforce, we looked at how the City is planning for and keeping track of important metrics related to human capital management. Our objectives guiding this work grew from risks we identified as part of our office's Citywide Human Capital Fact Book, issued in July 2018.¹



[The City Auditor's 2018 Citywide Human Capital Fact Book](#)¹ contains information regarding many aspects of the City's workforce. That project identified several areas of risk, which helped guide this project and future work.

That project utilized information from a wide variety of sources and methods, including datasets relating to compensation, diversity, recruitment and retention, and employee satisfaction; Citywide surveys; interviews with City leadership; and articles and subject literature from the Society of Human Resource Management, the Government Accountability Office, and others.

Among many other pieces of information presented, that project identified several risk areas related to the City's Human Capital Management, including:

- Compensation;
- Retention;
- Organizational Agility; and
- Employee Satisfaction.

For example, we found that the number of employees quitting had recently overtaken the number of employees retiring. And that further, in our Citywide Management Survey of hundreds of managers across the City,² managers expressed concern that retention of employees was an area where the City was

¹ Citywide Human Capital Fact Book, available at: https://www.sandiego.gov/sites/default/files/19-001_citywide_human_capital_fact_book.pdf.

² We conducted this Citywide Management Survey as part of our recent Citywide Human Capital Factbook; the survey included the perspectives of hundreds of supervisors, managers, and executives in departments Citywide on a variety of human capital management issues.

particularly struggling and that the highest-performing employees were leaving at a higher rate than others.

We subsequently initiated this audit of the City's Strategic Human Capital Management to evaluate whether the City could improve its strategic approach to managing its \$1.5 billion workforce. Specifically, our audit objectives were to:

- Assess the degree of the City's compensation competitiveness, including:
 - Evaluating whether non-competitive compensation is a significant factor contributing to employee turnover and vacancies; and
 - Evaluating whether the City's efforts to collect, monitor, and analyze the reasons for employee separations are sufficient to allow the City to react to employee separation trends.
- Assess the extent of the City's efforts to encourage retention among high-quality employees, such as the Rewards and Recognition program, Tuition Reimbursement program, and others, including whether the programs are right-sized and what additional efforts the City may be able to undertake.
- Assess the extent of the City's disciplinary efforts and the possibility for reforms to the disciplinary process.

Due to the wide range of issues and information covered in the audit objectives, we focused this report primarily on findings and recommendations related to issues of compensation, retention, and overall Strategic Human Capital Management. We are also continuing work on separate reports that cover other prominent risk areas, including efforts at employee performance, rewards and recognition, and employee discipline.

**The Personnel and
Human Resources
Departments Lead the
City's Strategic Human
Capital Management
Capabilities**

Together, Personnel and HR lead the majority of the City's workforce management efforts related to Strategic Human Capital Management. Some other City departments, including Police, have an embedded human resources function as well. This is described in the report where relevant. An overview comparison of Personnel and HR is presented in **Exhibit 4**.

Personnel Department The mission of the City's Personnel Department is "excellence in personnel services."

In the City's adopted FY20 budget, the department had about 70 full-time equivalent (FTE) positions and approximately \$9.7 million of expenditures.

Notably, Personnel is an independent department that reports not to the Mayor's Office but to the City's Civil Service Commission, as authorized by the City Charter.

The City's budget identifies Personnel's main responsibilities as providing supervision over the selection, promotion, and removal of all classified employees,³ and maintaining a competitive merit system that provides equal opportunity for all applicants.

Human Resources Department The City also has a Human Resources Department (HR). HR's mission is "to provide a connection between management and employees in an effort to enhance morale and productivity, limit job turnover, support a responsive and innovative workforce as well as help the City deliver services in a fiscally-sound and efficient manner."

The department had about 34 FTE positions and approximately \$5.8 million of expenditures in the adopted FY20 budget.

HR is composed of various independent programs and activities that include Employee Learning and Development, Reasonable Accommodations, and Labor Relations with the City's recognized employee labor groups. See **Exhibit 4** for an overview comparison of Personnel and HR.

³ Employment in the City is divided into the unclassified and classified service. Most positions in the City are considered classified positions. The unclassified service is not subject to the Civil Service provisions of the City Charter. Unclassified employees include management-level employees (e.g., Department Directors), although departments such as the Offices of the City Auditor, the Independent Budget Analyst, and the City Attorney contain non-managing unclassified employees.

Exhibit 4

Summary Comparison of Personnel and Human Resources Departments

<i>Department</i>	Personnel	Human Resources
<i>FY20 Budget</i>	\$9.7 million	\$5.8 million
<i>Full-Time Equivalent Positions</i>	70	34

Reports to: Civil Service Commission City Executive Management

Source: OCA, based on the City's FY20 Adopted Budget and department websites.

Proposition B In addition to having somewhat decentralized workforce management functions, the City is also subject to the results of ballot initiatives, which can affect its Strategic Human Capital Management.

In 2012, 65 percent of voters approved Proposition B; the measure froze pensionable pay for City employees until July 2018. Notably, the pay freezes could be overcome by a vote of two-thirds of the City Council.

The pay freezes expired in 2018, resulting in more flexibility in the last several years for the City in terms of budgeting for and establishing employee compensation as part of its strategic human capital management.

Also, in accordance with Proposition B, the City of San Diego has not offered a traditional defined benefit (DB) pension to most new employees since 2012, instead offering a defined contribution (DC) retirement plan. Sworn police officers were exempted and retain their traditional DB pensions.

Within the State of California, more than 96 percent of cities provide a DB pension retirement plan to employees.

While DC plans are more common in the private sector, nearly all retirement plans in the U.S. are supplemented with employee eligibility for Social Security, which itself is a DB plan. However,

City of San Diego employees also do not have access to Social Security retirement benefits.⁴ See Exhibit 5.

Proposition B has since been the subject of litigation, with the California Supreme Court declaring it invalid. As of this writing, the City is currently assessing how to move forward with respect to retirement plan benefits for employees.

Exhibit 5

Summary of Common Retirement Plan Access Strategies

	Public Sector	Private or Non-Profit Sector	City of San Diego (post-2012)
Employer Plan	DB	DC	DC
Social Security	Yes	Yes	-

Note: A Defined Benefit (DB) pension is a retirement plan whereby an employee's payouts in retirement are defined—for example, calculated according to length of service and their salary earned. A Defined Contribution (DC) retirement plan also involves both the employee and the City making regular contributions into a retirement account, but the future benefits paid out to the retiree can vary based on investment earnings.

Source: OCA, based on research from the U.S. Government Accountability Office and information from the City of San Diego.

⁴ About 96 percent of U.S. employees have access to Social Security DB pensions. About 75 percent of public sector employees also have access to DB pensions via Social Security as well as employer-provided DB plans. Social Security participation does come with a tax, which City of San Diego employees are exempted from, since they do not participate. Typically (outside of the City of San Diego), workers and employers both pay for Social Security, with workers paying 6.2 percent of their earnings, and employers matching 6.2 percent of an employee's earnings. For most City employees with a DC retirement plan, the City's matching contribution is 9.2 percent of salary and wages. For certain public safety positions, the rate is 11 percent.

While not all employees value defined benefits equally, a comparative analysis between the value of DB and DC plans by New York City's Comptroller found that, across sizable workforce populations, it would be 57 percent to 61 percent more expensive for DC plans to deliver the same level of retirement incomes to employees as DB plans—due to factors such as longevity risk pooling, superior investment returns, and maintenance of portfolio diversification in DB plans. The City of San Diego has not assessed what difference, if any, its different plan types affect recruiting or retention. See Finding 2 for more detail.

**The City Recognizes Six
Different Employee Labor
Groups**

The City provides a wide-range of public services, including highly-visible services, such as public safety, park maintenance, and code compliance, and less-visible roles, such as legal work, contracting services, and financial management.

Labor groups represent different types of City employees in matters such as contract negotiations, working conditions, and performance issues. However, in this report, we reference labor groups as a way of examining areas of higher- and lower-risk across the City's vast workforce.

For example, to identify higher-risk areas where the City may be facing particular retention challenges—and because recent salary studies commissioned by the City included breakout results by employee labor groups—we analyzed quits rates and vacancy rates by labor group.

The City recognizes the following six labor groups:

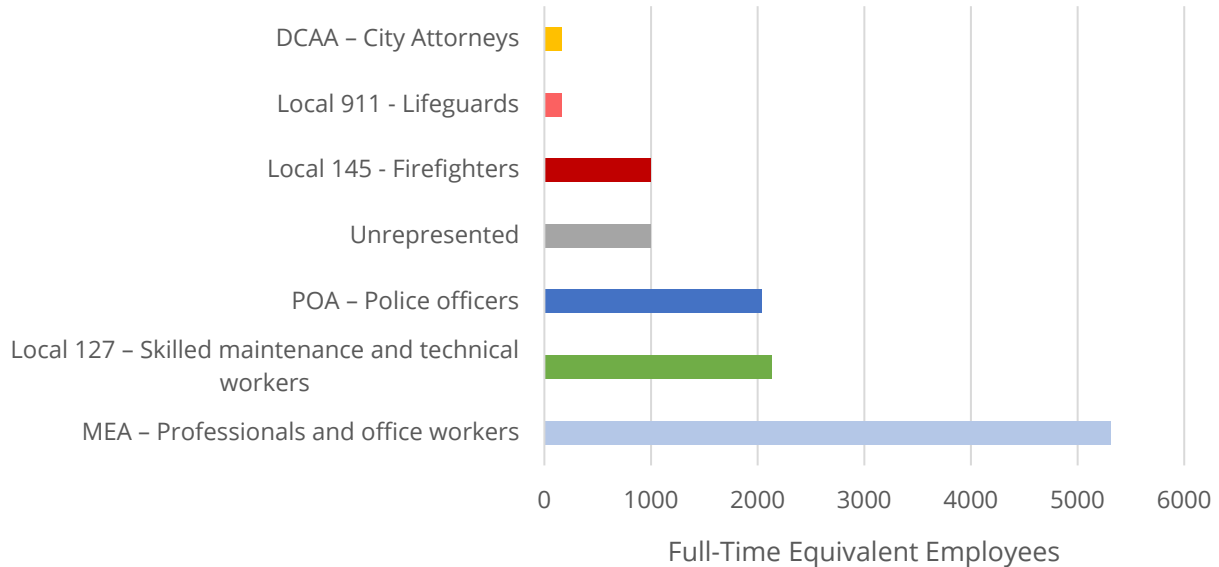
1. **The Municipal Employees Association (MEA)**, which represents technical, office, professionals, and supervisory employees;
2. **The American Federation of State County and Municipal Employees (Local 127)**, which represents skilled trades and laborers;
3. **The San Diego Police Officers Association (POA)**, which represents sworn police officers;
4. **The International Association of Firefighters (Local 145)**, which represents fire safety officers;
5. **Teamsters Local 911 (Local 911)**, which represents Lifeguards; and
6. **The Deputy City Attorneys Association of San Diego (DCAA)**, which represents unclassified Deputy City Attorneys.

Although the vast majority of positions in the City participate in labor group representation, about 1 in 10 City workers are “unrepresented.” These are often unclassified management-level employees.

MEA is the largest labor group by far, with almost half of represented City workers. Groups such as DCAA and Local 911— City Attorneys and Lifeguards— are much smaller. See Exhibit 6.

Exhibit 6

Full-Time Equivalent (FTE) Positions by Labor Group, Fiscal Year 2020



Source: OCA, based on the City's FY20 Adopted Budget.

The City is Currently Negotiating Updated Labor Agreements with All Six of its Recognized Employee Labor Groups

HR negotiates labor agreements with the City's recognized employee labor groups. These agreements address issues such as compensation, benefits, and working conditions, and are articulated in Memoranda of Understanding (MOUs). The MOUs can span a year or multiple years for a given agreement.

According to HR, the process is divided up into first negotiating "non-economic" issues, such as working conditions, and subsequently an "economic" phase—i.e. issues of compensation. As of the writing of this report, HR is negotiating updated labor agreements with all six of the City's recognized employee labor groups.

Using an evidence-based approach to strategically invest limited resources is especially critical given these ongoing negotiations, which affect 90 percent of the City's employees. Ultimately, with a large workforce having undergone major changes in the last decade, this project examined how the City tracks and communicates key workforce trends and how it can leverage its

limited resources to attract, develop, and retain crucial employee talent and ensure quality public services for taxpayers, residents, and visitors.

Audit Results

Finding 1: Despite Years of Steady Revenue and Expenditure Growth, San Diego Lags Far Behind Other Cities in Compensation Competitiveness and Should Develop a Strategy to Mitigate Growing Risks to its Workforce and the Various Public Services it Provides

Finding Summary

Although the City provides many different types of compensation and benefits, overall compensation levels for most positions in the City of San Diego fare poorly in a comparison to 24 other California cities and jurisdictions, according to recent salary studies conducted on behalf of the City. As of 2019, of the various represented employee groups, only the Police Officers Association (POA) was close to being competitive with the other California cities. All other groups were 14 percent or more below the median levels of the benchmark cities.

Lagging compensation competitiveness is not a common compensation strategy among employers. However, the City has not developed a compensation strategy and has not sufficiently planned for foreseeable personnel expenditures despite the expiration of voter-enacted pay freezes and continued years of growth in overall revenues and expenditures.

We found that widespread uncompetitive compensation poses a growing short- and long-term risk to the City's ability to maintain and attract a high-quality workforce for providing public services and has likely contributed to several negative effects on the City workforce and public services, including:

- Increased recruitment and retention challenges;
- Damage to the City's brand as an employer;
- Employee dissatisfaction; and

- Increased risk of fraud, waste, and abuse.

To mitigate some of these effects and ensure the City can strengthen its support for its employees—while planning for fiscal sustainability and high-quality public services for taxpayers, residents, and visitors—we make several recommendations, including: developing a Compensation Strategy; improving forecasting procedures that result in more accurate expenditure projections; strengthening communication of existing compensation and benefits to employees; and identifying relatively low-cost solutions that employees still value highly, such as increasing flexible work opportunities.

The City of San Diego Offers Many Different Elements of Compensation to its Employees; However, the City is Far Behind Benchmark Cities in Total Compensation Competitiveness

The City of San Diego has in place many different elements of compensation and benefits for its employees, including health insurance, paid time off, and professional development programs, as well as salaries and wages. However, overall compensation levels for most positions in the City of San Diego fare poorly in a comparison to 24 other California cities and jurisdictions,⁵ according to recent salary studies conducted on behalf of the City.⁶

Exhibit 7 shows that as of 2019, of the various represented employee groups, only the Police Officers Association (POA) was close to being competitive with the other California cities. All other groups were 14 percent or more below the median levels of the benchmark cities; the Deputy City Attorneys were 26 to 32 percent below the median.

⁵ The 24 survey jurisdictions included the cities of Anaheim, Carlsbad, Chula Vista, Escondido, Fresno, Glendale, Irvine, Long Beach, Los Angeles, Modesto, National City, Oakland, Oceanside, Oxnard, Riverside, Sacramento, San Bernardino, San Jose, Santa Ana, Santa Barbara, Santa Cruz, Stockton, the City and County of San Francisco, and the County of San Diego.

⁶ Elements of compensation data in the contracted salary surveys included: Monthly base salary, Employee retirement, Employer (ER) Paid Member Contribution, Defined Benefit Formula, Enhanced Defined Benefit Formula, Final compensation, Employer Paid Member Contribution (EPMC) Reported as Special Compensation, Employer Paid Member Contribution (EPMC), Social Security, Defined Contribution or Other Deferred Compensation, Insurances, Leave, Auto Allowance, Uniform Allowance, Tool allowance, and other benefits. The study also notes that “Other costs, such as sick leave, tuition reimbursement, and reimbursable mileage are usage-based, cannot be quantified on an individual employee basis and are thus not included in the total compensation calculation.”

Exhibit 7

Total Compensation Survey Results Show Most Employee Groups Within the City of San Diego are Well Below the Median of Peer Cities

City of San Diego Employee Organization	2015*		2019	
	Compensation Competitiveness		Compensation Competitiveness	
	New Hire	5-Year Employee**	New Hire	5-Year Employee**
DCAA (Deputy City Attorneys)	-37%	-50%	-26%	-32%
MEA (Professionals and office workers)	-23%	-34%	-20%	-26%
Local 127 - AFL-CIO (Skilled and technical workers)	-19%	-30%	-17%	-22%
Local 911 (Lifeguards)	-19%	-22%	-23%	-22%
Local 145 (Firefighters)	-7%	-16%	-14%	-14%
POA (Police)	-5%	-12%	+1%***	-4%***

Notes: The percentages shown represent the overall percentage each employee organization is above or below the total compensation median of 24 other benchmarked cities and jurisdictions throughout California.

Unclassified employees who are not represented by an employee labor group were not included in this table since they were not included in the City's salary studies.

The studies used a number of benchmark classifications within each labor group; e.g. the 2019 studies compared 72 different benchmark classifications within MEA, 28 classifications within Local 127, 10 within Local 145, 6 within POA, 2 within DCAA (Deputy City Attorney 2 and 3), and 1 within Local 911 (Lifeguard 2).

*The Police Officers Association was not included in the City's 2015 Salary study but had a separate, similar study in 2017 as part of a contract renegotiation. Those 2017 results are the -5% and -12% shown in the left-most columns for POA.

**The salary studies for Police also used a comparative assessment for an 8-year employee instead of a 5-year employee. Those figures are the -12% and -4% figures in the POA row.

***In January 2020, the Police received another 5% salary increase that is not reflected in the competitiveness figures in the 2019 salary study or table above.

Source: OCA, based on analysis of City separations data and salary studies conducted on behalf of the City by Koff and Associates.

**The City is Also an Outlier
Among Local
Governments and Many
Employers in That Most
New Employees Do Not
Have Access to a Defined
Benefit Retirement Plan**

In accordance with the voter-approved Proposition B, the City of San Diego has not offered a traditional defined benefit (DB) retirement plan to most new employees since 2012, instead offering a defined contribution (DC) retirement plan.⁷

Within the State of California, more than 96 percent of cities provide a DB pension retirement plan to employees.

While DC plans are more common outside the state and local government, nearly all of those plans are supplemented by employee participation in Social Security, which itself is a DB plan.

However, City of San Diego employees do not have access to Social Security retirement benefits; thus, while the City does offer a generous DC plan,⁸ the reliance on such a plan is another form of unusual labor market positioning for the City.

⁷ We note that, further, the City's switch to Defined Contribution retirement plans for most employees was invalidated by the California Supreme Court, so the City is evaluating how to comply with a court order to compensate affected employees for the loss of this benefit. Nevertheless, we mention it here as a relevant element related to compensation and the City's Human Capital Management.

⁸ For employers that participate in Social Security, employers and employees each contribute 6.2 percent of the employee's salary. For most City employees with a DC retirement plan, the City's matching contribution is 9.2 percent of salary and wages. For certain public safety positions, the rate is 11 percent.

Exhibit 8

Summary of Common Retirement Plan Access Strategies

	Public Sector	Private or Non-Profit Sector	City of San Diego (post-2012)
Employer Plan	DB	DC	DC
Social Security	Yes	Yes	-

Note: About 96 percent of U.S. employees have access to Social Security defined benefit pensions. About 75 percent of public sector employees also have access to DB pensions via Social Security. Social Security participation does come with a tax, which City of San Diego employees are exempted from, since they do not participate.

While not all employees value defined benefits equally, a comparative analysis between the value of DB and DC plans by New York City's Comptroller found that, across sizable workforce populations, it would be 57 to 61 percent more expensive for DC plans to deliver the same level of retirement incomes to employees as DB plans—due to factors such as longevity risk pooling, superior investment returns, and maintenance of portfolio diversification in DB plans. The City of San Diego has not assessed what difference, if any, its different plan types affect recruiting or retention. See Finding 2 for more detail.

Source: OCA, based on research from the U.S. Government Accountability Office and information from the City of San Diego.

Most Employers Seek to Offer Market-Competitive Compensation

Although there is no prescribed compensation level, other than minimum wage, employers often determine appropriate compensation levels for their employees by researching market rates and determining a compensation strategy. A strategy may be to “lead the market” for example, whereby an employer determines that it would like to provide premium compensation in order to draw attention and attract top talent. An employer may choose a “lag the market” or “mid-market” strategy as well.

Most organizations aim for mid-market compensation competitiveness. About 16 percent have an intentional goal to “lead the market,” and a few have an intentional goal to “trail the market.” Only one percent have a base salary target of significantly below-market competitiveness. See **Exhibit 9**.

Exhibit 9

Most Organizations Aim for Mid-Market Competitiveness

“Compared to the relevant labor market, what is your organization’s total (compensation) target? Actual practice?”

	N=	25 th percentile	Above 25 th but below 50 th percentile	50 th percentile, or median	Above 50 th but below 75 th percentile	75 th percentile or above
Target	478	1%	4%	80%	13%	3%
Practice	478	2%	19%	60%	16%	4%

Source: World at Work, 2016 Compensation Programs and Practices Survey.

As previously shown in **Exhibit 7**, within the City of San Diego and as of 2019, only the Police Officers Association (POA) was close to the total compensation median in a comparison of 24 other California cities and jurisdictions; all other groups were 14 percent or more below the median levels of the benchmark cities.

Employee Wages Were Frozen for Many Years

A primary cause of the City now lagging market competitiveness so pervasively is that employee wages were frozen for many years. Due to financial pressure, some employee salary freezes began around 2008 and were extended to all employees in July 2009. In 2012, pay freezes were further extended until July 2018 as a part of the voter-approved Proposition B, which was motivated by concern over rising pension costs. **Exhibit 10** shows a small subset of the many job classifications for which base compensation did not increase at all between 2009 and 2017.⁹

⁹ As shown in **Exhibit 10**, the salaries for a given job were frozen. Individual employees could still increase their earnings in some ways—for example, by being promoted into a new position with different authorized salary limits.

Exhibit 10

Widespread Pay Freezes Were in Effect for Most of the Past Decade—Sample of Different City Jobs

Class Title (Code)	July 2009 Max Monthly Amount	July 2017 Max Monthly Amount	Difference
Structural Engineering Associate	\$6,728	\$6,728	\$0
Police Officer 2	\$6,350	\$6,350	\$0
Associate Planner	\$5,731	\$5,731	\$0
Combination Inspector 2	\$5,567	\$5,567	\$0
Fire Fighter 2	\$5,300	\$5,300	\$0
Executive Secretary	\$4,404	\$4,404	\$0
Dispatcher 1	\$3,430	\$3,430	\$0
Assistant Recreation Center Director	\$3,037	\$3,037	\$0
Grounds Maintenance Worker 1	\$2,842	\$2,842	\$0

Source: OCA, based on City Salary Ordinances.

All organizations face resource constraints, and the City as an organization is subject to the provisions of voter-approved initiatives. The City had limited direct control over this strategic human capital management decision for its workforce. But given that the widespread pay freezes effected by Proposition B were temporary and could be overcome by a two-thirds vote of the City Council, the City could have:

- Foreseen that losing ground to peer cities in terms of compensation competitiveness may have negative effects on the workforce;
- Monitored the effects of compensation changes on the workforce and identified and advocated for groups facing particular recruitment and retention difficulties; and
- Developed a compensation strategy for when it would have more control over wages again.

However, City efforts fell short in each of these respects. The following sections discuss each of these issues in more detail.

**The City Did Not
Comprehensively Assess
its Compensation
Competitiveness Until
2015**

It is not clear how well the City understood its relative organization-wide compensation competitiveness in 2012, given that it had not conducted an organization-wide salary study comparing San Diego to other peer cities at the time. Several stakeholders advised that some studies were done informally at the department level, but the earliest organization-wide salary study that HR was able to produce did not occur until 2015—years into extended wage freezes. When we asked for prior salary studies, HR responded that such comparisons were not done formally prior to the 2015 study.

As already discussed, the 2015 study, which was conducted by a third-party consultant, found San Diego lagging broadly across many different classifications compared to other California city governments.¹⁰

**The City Did Not Monitor
the Effects of
Compensation Changes
on the Workforce or Keep
Track of Groups Facing
Particular Challenges with
Recruitment and
Retention**

Although Proposition B froze wages generally, it did allow for pay raises by a two-thirds vote of the City Council. This provision may have given the impression to voters that there was a responsive mechanism in place to address potential resulting risk areas, such as challenges related to recruitment, retention, employee morale, etc.

According to Personnel and City Executive Management, after Proposition B was approved by voters in 2012, there was an agreement between the City and the employee labor organizations not to use the City's Special Salary Adjustment (SSA) process until FY17.¹¹ However, the City was still able to monitor workforce effects and use the labor negotiation process.

The City did actually do this monitoring and advocating in 2017 for sworn police officers. However, that example has several issues, which are discussed later in this report in Finding 2. That example aside, we found the City did little systemic monitoring of the effects of workforce trends despite its unusual market position.

¹⁰ We also compared the cost of home prices in these 24 peer cities and jurisdictions and found the median home price to be about 10 percent less expensive than San Diego, per Zillow 2019.

¹¹ See Finding 3 for more detail on the SSA process.

The City Has Not Developed a Compensation Strategy or Adequately Planned for Foreseeable Expenditures

Aside from the fact that pay is now well behind peer cities, the City of San Diego also has not planned for how to restore compensation competitiveness to mid- or even low- mid-market levels, even after pay freezes from Proposition B have expired.

For example, neither HR nor Personnel was aware of the City of San Diego having a compensation strategy at any time in recent history. A compensation strategy or philosophy is defined as a position or policy explaining an organization's goals about how employees should be paid, as well as how that pay should support the business strategy and fit within the organization's culture.

Such a strategy provides guidance for decision-makers in linking an organization's strategic goals to the cost of its varied workforce. It can include elements such as target compensation levels, projected fiscal sustainability, and recruiting and retention targets. A key component is how the organization intends to pay its employees relative to its competitors (i.e., the desired market position).

Having a compensation strategy or philosophy also can help communicate and justify the City's approach to organized labor—which may be asking for above-optimal pay—as well as the public, which may be skeptical of pay increases.

According to a 2016 survey by World at Work, more than 9 in 10 private-sector companies have a compensation philosophy—62 percent have a written policy and 31 percent have an unwritten policy. We also found numerous examples of other municipalities with articulated compensation philosophies.

For example, when the City of Santa Monica formalized its compensation philosophy in 2018, it stated:

[It] is designed to capture the philosophy of the City as an “employer of choice” in the 21st Century that also has a responsibility to its citizens to be fiscally responsible and transparent.

Government Finance Best Practices Encourage Entities to Accurately

In addition to having a strategy, it is critical to foresee funding needs to achieve the strategy. The Government Finance Officers Association (GFOA) encourages governments to set aside

Forecast and Plan for Personnel Expenditures enough money to pay their employees and to consider the impact of inflation when forecasting personnel expenditures:¹²

GFOA encourages every government to consider forecasting procedures that would result in more accurate expenditure projections, especially as they relate to personnel.

Inflation can have a significant impact on payroll forecasting. Cost-of-living adjustments often are used when forecasting personnel costs. The Consumer Price Index (CPI), a broad measure of consumer inflation, is the cost-of-living index used most often for determining salary increases. The U.S. Bureau of Labor Statistics' Employment Cost Index might be a better index for this purpose, as it measures the change in the cost of labor....

San Diego Remains Well Behind the Median Compensation of Other Benchmarked Cities for the Vast Majority of Classifications as of 2019, with No Strategy to Address its Standing The Consumer Price Index in San Diego has risen by an average annual amount of about 2.1 percent in recent years. And, prior to the global coronavirus pandemic of 2020, according to SHRM, wage growth nationwide was expected to be around 3 percent again in 2020, around what it had been in recent years. The U.S. Bureau of Labor Statistics had also projected annual rate of salary and wage growth to be more than 4 percent, as shown in Exhibit 11.

Exhibit 11

Anticipating Changing Prices is Part of Prudent Financial Planning

2.1% Average Annual Consumer Price Index increase in San Diego County, 2010–2017

4.3% Bureau of Labor and Statistics' Projected Annual Rate of Salary and Wage Growth, 2018–2028

Source: U.S. Bureau of Labor Statistics.

¹² Government Finance Officers Association. "Effective Budgeting of Salary and Wages." Available at <https://www.gfoa.org/effective-budgeting-salary-and-wages>.

However, for most years in the last decade, the City did not plan for general salary increases, even as it fell further behind. Officials we spoke with stated that setting aside resources would have been a violation of the spirit of Proposition B.

After Proposition B expired in 2018, the City did approve across-the-board pay increases in FY19 and FY20—for most employees, these were 3.3 percent. These raises helped in keeping pace with market wage growth during those two years, although this may not have done much to improve the City's competitiveness. The City has been increasingly utilizing its SSA process as another mechanism to restore pay competitiveness. That process is an example of a strategic response, but it is limited in many ways, as discussed in Finding 3.¹³

As a result, San Diego remains well behind the median compensation of other benchmarked cities for the vast majority of classifications as of 2019, with no strategy to address its standing.

Because it Did Not Adapt in the Past, the City Now Faces a Steep Challenge in Maintaining or Restoring Pay Competitiveness

The City now faces a steep challenge for maintaining or restoring pay competitiveness even to low- to mid-market levels for many of its employees going forward.

In the Fiscal Year 2021–2025 Five-Year Financial Outlook, the Department of Finance estimated that an across-the-board 1 percent increase in salaries would cost the City about \$6 million, annually. Thus, restoring compensation competitiveness broadly to mid-market levels would cost much more—possibly on the order of more than \$120 million annually.

The City now faces a projected \$83 million financial shortfall,¹⁴ as well as projected shortfalls into the future—even while assuming no future wage growth for employee groups. Simultaneously, the City currently faces negotiations with all six of its recognized

¹³ Some of the limitations with the SSA process are that it was not utilized during wage freezes, undercounts true turnover, is initiated reactively rather than proactively, and is intended as a troubleshooting mechanism, not as a primary strategy for widespread compensation competitiveness issues. See Finding 3.

¹⁴ Financial shortfalls are projected in the City's Five-Year Financial Outlook. However, these are not the same as budget deficits, and the City still has some discretion over how to allocate future spending.

employee labor groups regarding employee wages and benefits; this position will require careful consideration of the costs of higher compensation against other City employee groups, programs, and obligations.

This situation is particularly concerning given the lengthy economic expansion that occurred over most of the last decade. From FY11 to FY20, annual General Fund revenues and expenditures each increased from about \$1.0 billion to \$1.6 billion. Now, the global coronavirus pandemic is expected to exert significant economic and fiscal pressure on the private and public sectors.

Without taking steps to set aside resources for foreseeable expenses in the future, the City is likely to fall even further behind, delaying its reckoning with—or possibly even expanding—its competitiveness gap.

Therefore, in order to aid in planning for the majority of General Fund expenditures, we recommend:

- Recommendation 1** The Human Resources Department (HR), working collaboratively with the Department of Finance and the City's Executive Management, should document and articulate a Total Compensation Strategy, including but not limited to compensation and benefits components, levels, and market competitiveness to guide labor negotiations and set employee expectations with respect to compensation.
- a) Informed by HR's assessment efforts (see Recommendations 4 and 5), the strategy should include what role "non-economic" incentives can play – and how such incentives can help the City achieve its total compensation strategy.
 - b) The City's strategy should include fiscal consideration and appropriate long-term forecasting for how the City can financially achieve its total compensation goals.
(Priority 1)

In addition, and per GFOA fiscal guidance to “encourage every government to consider forecasting procedures that would result in more accurate expenditure projections, especially as they relate to personnel,”

Recommendation 2 Upon completion of the City's Total Compensation Strategy outlined in Recommendation #1, the Department of Finance should ensure that fiscal outlooks should incorporate and align with the Total Compensation Strategy. (Priority 1)

Stakeholder Knowledge of Key Workforce Trends is Largely Driven by Anecdotes Rather Than Data Analysis

We note that there are different perspectives on how much to pay employees. For example, one perspective could argue that freezing pay for employees led to short-term savings for the City—or that employees’ pay should be reduced further in order to save even more money.

However, and again for reference, we found that most organizations aim for mid-market compensation competitiveness. Among the likely reasons for the popularity of this strategy is that there may be negative effects to an organization with badly lagging compensation competitiveness.

As stated above, we found the City did little systemic monitoring of the effects of workforce trends, despite its unusual market position. Instead, throughout the audit, we found that stakeholder knowledge of key workforce trends within the City is driven largely by anecdotes.

For example, stakeholders that we spoke with described effects, such as increased reliance on contracting out services and promoting people into higher-paying roles for which they may not be ready.

The Police Department reported a recruitment and retention crisis that was jeopardizing public safety; as a result, in 2017, the City voted to enact pay increases for officers, negating much of the originally-projected savings from the initial pay freezes.¹⁵

However, we found that HR and Personnel’s analytical and monitoring efforts of these sorts of workforce issues were

¹⁵ See Finding 2 for more information.

limited. Those concerns are discussed in more detail in Findings 2 and 3.

Ultimately, the concerns we heard most from managers across departments was dismay over the perceived value of employees, the City's status as a "training ground," and its inability to retain employee talent.

**Uncompetitive
Compensation Poses a
Growing Risk to the City's
Ability to Attract and
Maintain a High-Quality
Workforce for Providing
Public Services**

Since recent salary studies commissioned by the City included breakouts by employee labor groups, and since the City is negotiating updated labor agreements with all six recognized employee labor groups, we also analyzed retention patterns by labor group. We found that groups with lower rates of compensation competitiveness have generally had higher rates of quits.¹⁶ For example, the Deputy City Attorney Association's (DCAA's) compensation was the least competitive according to the City's salary studies, and it has had the highest rate of quits. Police and Firefighters have more competitive compensation, and much lower rates of quitting. See **Exhibit 12**.

¹⁶ "Quits" is not used in a pejorative sense; it is a technical term referring to voluntary separations other than retirements. See U.S. Bureau of Labor Statistics: <https://www.bls.gov/jlt/jltdef.htm>.

Exhibit 12

Groups with the Least Competitive Compensation Have Had the Highest Rates of Employees Leaving Voluntarily

City of San Diego Employee Organization	2015*		2019		Quits Rate Annual Average (2015 - 2019)
	Compensation Competitiveness		Compensation Competitiveness		
	New Hire	5-Year Employee**	New Hire	5-Year Employee**	
DCAA (Deputy City Attorneys)	-37%	-50%	-26%	-32%	10.1%
MEA (Professionals and office workers)	-23%	-34%	-20%	-26%	6.1%
Local 127 - AFL-CIO (Skilled and technical workers)	-19%	-30%	-17%	-22%	2.8%
Local 911 (Lifeguards)	-19%	-22%	-23%	-22%	2.9%
Local 145 (Firefighters)	-7%	-16%	-14%	-14%	1.6%
POA (Police)	-5%	-12%	+1%***	-4%***	3.2%

Notes: Notes: The percentages shown represent the overall percentage each employee organization is above or below the total compensation median of 24 other benchmarked cities and jurisdictions throughout California.

Unclassified employees who are not represented by an employee labor group were not included in this table since they were not included in the City's salary studies. Their average annual quits rate from 2015-2019 was about 8.1%.

The studies used a number of benchmark classifications within each labor group; e.g. the 2019 studies compared 72 different benchmark classifications within MEA, 28 classifications within Local 127, 10 within Local 145, 6 within POA, 2 within DCAA (Deputy City Attorney 2 and 3), and 1 within Local 911 (Lifeguard 2).

*The Police Officers Association was not included in the City's 2015 Salary study but had a separate, similar study in 2017 as part of a contract renegotiation. Those 2017 results are the -5% and -12% shown in the left-most columns for POA.

**The salary studies for Police also used a comparative assessment for an 8-year employee instead of a 5-year employee. Those figures are the -12% and -4% figures in the POA row.

***In January 2020, the Police received another 5% salary increase that is not reflected in the competitiveness figures in the 2019 salary study or table above.

Source: OCA, based on analysis of City separations data and salary studies conducted on behalf of the City by Koff and Associates.

*Correlation is not Causation,
but it Can Help Identify Risk
Areas and Inform Strategy*

We note that there are many additional reasons employees quit besides below-market pay. For example, an employee may go back to school or feel frustrated with perceived rewards or discipline issues. Indeed, only 37percent of responding City employees agree that poor job performance is dealt with effectively in their department, and only 53 percent believe they have a path for career advancement, according to the latest employee satisfaction survey.¹⁷

Nevertheless, when we surveyed hundreds of managers in departments around the City, compensation (pay and benefits) was identified as by far the biggest factor in why the City is unable to recruit and retain employee talent.¹⁸ And while pay is not the only factor job seekers consider, recent research from Glassdoor finds that salaries and benefits are the most important factors when job seekers are researching job ads. Thus, examining the intersection between key metrics may help the City identify the most high-risk areas in its vast workforce.

**Other Risks of Badly
Lagging Compensation
Competitiveness Include
a Damaged Employment
Brand; Employee
Dissatisfaction; and
Increased Risk of Fraud,
Waste, or Abuse**

In addition to quits, there may also be other effects of non-competitive pay, such as the types of employees who leave, remaining employees' levels of engagement or satisfaction, and the City's perceived brand as an employer.

Indeed, the City's most recent Employee Satisfaction Survey (ESS) shows broad-based declines in employee satisfaction levels. And

¹⁷ Our office is conducting additional audit work focusing more closely on issues of employee performance, which we will continue as a separate report.

¹⁸ This sentiment corresponds to a recent nationwide survey that also found low pay is the biggest reason employees quit their jobs. Available at: <https://www.businessinsider.com/the-main-reason-an-employee-would-quit-a-job-2019-6>.

fewer than half of respondents would recommend the City as a place to work.¹⁹

Some research also suggests that as compensation levels fall further behind, an organization increases its exposure to the risk of fraud, waste, and abuse if employees feel underpaid. Although the ESS structure design did not assess satisfaction levels regarding compensation, in our own 2018 survey of management Citywide,²⁰ we found that only 13 percent of City management agrees the pay and benefits they can offer to employees is competitive with comparable labor market opportunities.²¹ This perspective is in marked contrast to responses from other governments throughout the country. See Exhibits 13 and 14.

Exhibit 13

San Diego Citywide Management Survey—“The total compensation (wages and benefits) we offer employees is competitive with comparable labor market opportunities”

“Strongly Agree”
or “Agree” **13%** City of San Diego – Management Citywide

Exhibit 14

Center for State and Local Government Excellence Survey—“Do you feel the wage and benefits compensation you offer your employees is competitive with the labor market?”

“Yes” **79%** State and Local Governments throughout the US

Note: Question wording was slightly different in the prompts. Similarly, the Center for State and Local Government Excellence Survey used a “Yes,” “No,” “Don’t know” scale, whereas the Auditor’s Citywide Management Survey used a five-point scale ranging from “Strongly Agree” to “Strongly

¹⁹ Employee satisfaction levels are discussed in more detail in Finding 2. Additionally, a quit—or any type of turnover—creates a vacancy, which has been a topic of increasing focus within the City. Vacancies as a metric are also discussed in more detail in Finding 2.

²⁰ Citywide Human Capital Fact Book, published July 2018. Available at: https://www.sandiego.gov/sites/default/files/19-001_citywide_human_capital_fact_book.pdf.

²¹ The results of the combined responses within HR and Personnel were similar to those of management Citywide.

Disagree.” Auditors combined the “Strongly Agree” and “Agree” portions of the Citywide Management Survey. The SLGE survey was conducted in the spring of 2017; the Auditor’s Citywide Management Survey was conducted in the spring of 2018. Despite these methodological differences, auditors believe the difference in results is profound enough to demonstrate a noteworthy gap in the perception of compensation competitiveness.

Source: OCA, based on responses to OCA Citywide Management Survey and research by the Center for State and Local Government Excellence (SLGE).

Thus, at the very least, there appears to be a strong perception among employees that pay and benefits are uncompetitive. And this perception may be damaging to employee engagement and the City’s brand and reputation.

The City Should Strengthen its Communication of Existing Compensation and Benefits to Employees

Given these issues, the City will need to be more strategic and effective than ever in managing its workforce and employee talent. One way the City could accomplish this involves strengthening communication to employees of the compensation elements that it already provides to them. Research has shown that employees in many organizations may be unaware of—or may not fully understand—the different types of compensation and benefits offered by their employer. According to SHRM, when employees lack this understanding, they are more likely to be dissatisfied with their overall compensation.

SHRM thus provides several suggestions to communicate the value of employee benefits:

1. Provide employees with a benefits statement that highlights the dollar value of each of their benefits;
2. Show employees how their benefits compare with competitors in the same region using benchmarking tools; and
3. Share progress of expanding employee benefits over time with employees.

The City Has Taken Some Steps in This Regard, but Can Continue to Strengthen its Efforts

HR provided auditors with a draft of a document that details the benefits extended to unclassified employees. The document is titled: Benefits Summary for Unclassified Employees. In July 2019, HR shared the document with unclassified employees.

Exhibit 15

HR has Prepared and Communicated a Benefits Summary for Unclassified Employees

BENEFITS SUMMARY FOR UNCLASSIFIED EMPLOYEES
The City of San Diego provides competitive benefits to unclassified employees.

Leave Benefits

- Holidays - 10 holidays observed in a calendar year. ☒
- Floating Holiday - Eight hours in a fiscal year.
- City-Awarded Discretionary Leave - Up to twenty-four hours in a fiscal year. ☒
- Annual Leave - First year employment through year 15, leave accrual equals 6.77 hours for each biweekly pay period (equivalent to 22 eight-hour days each 52 weeks). Year 16 and beyond, leave accrual equals 8.31 hours for each biweekly pay period (equivalent to 27 eight-hour days each 52 weeks). ☒
- Management Administrative Leave - Eighty hours per fiscal year for officers and employees in designated management positions. ☒
- Pay-in-Lieu of Annual Leave - Convert annually up to 125 hours of accrued leave to cash and receive payment the following calendar year. ☒
- Jury Duty (Court Leave) - Paid time off to serve as a juror. ☒
- Bereavement Leave - Up to 40 hours of paid leave each fiscal year. ☒
- Voluntary Furlough Program - Up to 200 hours in a fiscal year.
- Alternative Work Schedule - Available depending on position.

Family and Medical Leave

- Ability to apply for Family and Medical Leave following 12 months of employment and 1,040 hours worked (instead of 1,250 hours) in a year.
- Parental Leave - Up to 160 hours of paid leave in a rolling 12-month period. ☒ ☒

Disability

Long-Term Disability Income Plan - Eligible employees provided with an income replacement of 70 percent of biweekly earnings. ☒

Health

- Flexible Benefits Plan (FBP) - Cafeteria plan with FBP credits up to \$17,771 per fiscal year (depending on medical plan and coverage); with option to waive at \$9,977 per fiscal year. ☒
- Flexible Spending Accounts (FSA) - Pre-tax contributions from gross pay applied to qualifying expenses (Dental/Medical/Vision and Dependent/Child Care.) ☒

Life Insurance

- Basic Life Insurance - \$50,000 paid for by the City. ☒
- Executive Life Insurance - Additional City-paid life insurance for selected positions. Equal to two times the annual salary. Also includes Accidental Death and Dismemberment coverage. ☒
- Portable Life Insurance - Guaranteed issue when you initially apply for life insurance benefits for yourself at \$250,000 or your spouse/domestic partner at \$50,000. You may apply for a policy up to \$500,000, however, Evidence of Insurability will be required and the application is subject to approval by Hartford Insurance Group Policy. ☒

Professional Development

- Tuition Reimbursement - Up to \$2,000 for cost of professional and tuition fees per fiscal year. ☒
- Various training opportunities including management and supervisor academies.
- National University - Eligible for 15 percent discount in tuition, plus waived application fee. Spouse and dependent discounts are also available. ☒

Employee Assistance Program (EAP)

The City's EAP provides employees and members of their household the opportunity to meet with professional counselors to discuss concerns and challenges, including: work stress; conflicts in the workplace; personal and family conflicts; marital/relationship problems; health issues; financial stress; legal problems and substance abuse/addictions.

Updated as of May 2019

The City of **SAN DIEGO**

Source: Human Resources Department.

Although classified employees—who make up the vast majority of the City workforce—do not currently receive such a statement, Personnel stated support of a similar effort.

Thus, to strengthen its communication of existing compensation and benefits to employees, we recommend:

Recommendation 3 To mitigate employee dissatisfaction over low base pay, the Human Resources and Personnel Departments should build on their work to periodically communicate to employees the total value of their overall compensation and benefits—for example, via a periodic benefits summary or individual benefits statement. (Priority 3)

If the City Can Better Understand What Workers Care About, it May be Able to Provide Lower-Cost Solutions That Employees Still Highly Value

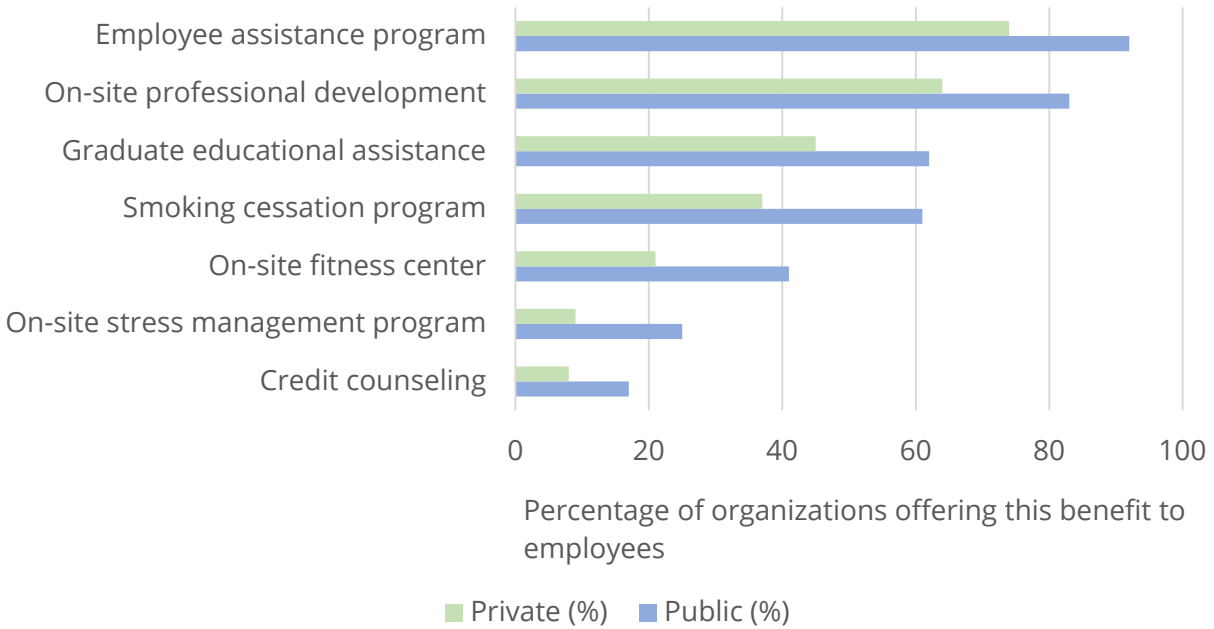
The City's poor compensation competitiveness for most groups of employees would complicate the second and third strategies from SHRM, previously mentioned, which encourage organizations to show employees how their compensation compares to other similar organizations. As such, the City should consider what other elements of compensation and benefits it may be able to offer to recruit and retain key employees.

The City of San Diego has in place many different elements of compensation and benefits for its employees across the City. In addition to better communicating the compensation and benefits already available, the City may be able to partially mitigate effects of uncompetitive pay by expanding creative, strategic benefits aside from pay. There are many different types of potential forms of compensation, perks, and benefits for employees.

The variety of benefits provided is wide-ranging among different organizations and often reflects the values, compensation strategy, or culture that an organization is trying to project. **Exhibits 16 and 17** show a sampling of benefits and the frequency of their existence within governments vs. private sector organizations, according to research by Governing Magazine.

Exhibit 16

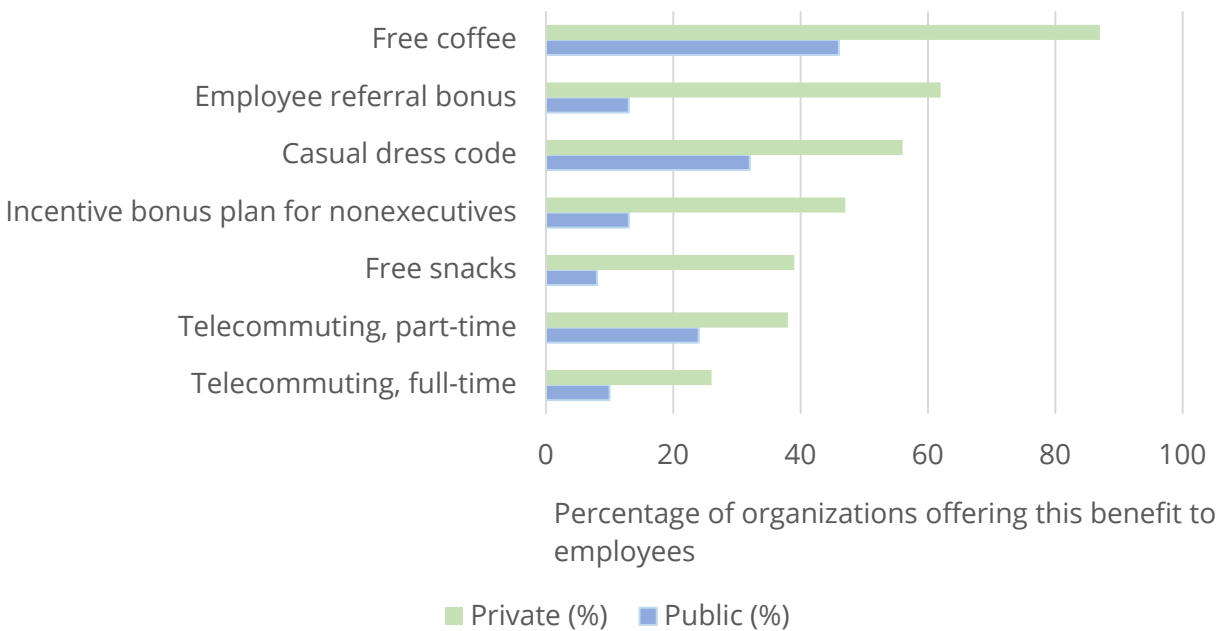
Benefits Offered More Often by Governments



Source: OCA, based on research compiled by *Governing Magazine*.

Exhibit 17

Benefits Offered More Often by Private Companies



Source: OCA, based on research compiled by *Governing Magazine*.

However, HR may not have robust knowledge about the benefits most important to City workers. For example, when we asked, HR did not have a copy of SHRM's annual Government Agencies benchmarks report, even though it was entering contract negotiations with all of the City's labor groups. HR stated that they rely on department management and City Executive Management to advocate for their staff, although they expressed interest in surveying employees directly.

Employee labor groups are also advocates for their members. However, HR stated that information would be communicated through the labor negotiations process and not necessarily on a regular basis. Additionally, there may be other limitations; labor union leaders may also have their own priorities, such as trade-offs between retirement benefits over starting salaries. For example, some research indicates younger employees may be more likely to value flexible work options or onsite childcare, whereas other employees may simply prefer base salary increases.

As such, SHRM also advises that organizations assess the importance of—and satisfaction with—current benefits among its employees directly:

To enhance strategic benefits efforts, over three-quarters (77%) of organizations collect input on employee satisfaction with benefits, with almost one-half (46%) collecting this information on at least an annual basis. Employers that collect this employee input at least annually were more likely to report increasing benefits in the last 12 months than employers that assess employee satisfaction less than once per year or not at all (39% vs. 30%).²²

While the City does conduct a biennial Employee Satisfaction Survey (ESS), the survey does not ask about compensation or benefits. The survey would be a logical and efficient place for the City to include content related to employee compensation and benefit priorities and would ensure that employees have an

²² SHRM 2018 Employee Benefits report, available at: <https://www.shrm.org/hr-today/trends-and-forecasting/research-and-surveys/Documents/2018%20Employee%20Benefits%20Report.pdf>.

opportunity to communicate their preferences, regularly and in a consistent manner.

The City has concluded its 2019 ESS; in the meantime, the City is currently in negotiations with employee labor groups over employee pay and benefits issues, which may be in effect for several years.²³ Therefore:

Recommendation 4

The Human Resources Department should document and implement a more data-driven methodology—such as a periodic survey like the Employee Satisfaction Survey—for assessing:

- a) How satisfied employees are with their level of compensation and benefits;
- b) Which forms of compensation or benefits are or would be most valued by employees; and
- c) A comparison of these results to some sort of benchmarking criteria, such as results from the Federal Employee Viewpoint Survey, the Society for Human Resource Management's annual Employee Benefits report, etc.
 - i. Such an assessment should place particular emphasis on which non-economic incentives are most valued by employees and best align with the City's Total Compensation Strategy (from Recommendation 1). (Priority 2)

The City May be Able to Increase Flexible Work Opportunities as a Budget-Efficient Benefit to Employees

Although pay raises are likely the simplest and most straightforward form of compensation to offer dissatisfied employees who are lagging well behind in compensation competitiveness, the City has set aside limited resources for compensation increases; further, the City has a duty to taxpayers to explore budget-efficient strategies that may achieve sizable workforce benefits.

For example, "flex work" arrangements have been shown to be one such benefit. Flexible work practices may vary in type and scope; they can include approaches such as alternative work schedules, telecommuting or remote work, and others.

²³ The Risk Management Department administers certain benefits, like health insurance, but HR is better positioned to evaluate which benefits to provide.

Research has shown that flex work:

- Is valued by employees;
- Is increasingly prevalent among employers;
- Is associated with increased employee engagement and actual productivity when used as operationally appropriate; and
- Can convey social benefits, such as helping to achieve City goals related to the Climate Action Plan, promoting workforce equity, and increasing an organization's ability to respond flexibly to disruptive situations.

These are discussed further below.

Flex Work as a Budget-Efficient Benefit

Recent research finds that workers place substantial value on non-wage amenities, including job flexibility. One study estimated telecommuting opportunities to be equivalent to a 4.1 percent wage increase and setting one's own schedule to a 9.0 percent wage increase. See **Exhibit 18**.

Exhibit 18

Employee Willingness-to-Pay Estimates for Highlighted Non-Wage Amenities

Non-Wage Amenity	Estimated Equivalent Wage Increase
Telecommuting	4.1%
Training opportunities	5.1%
Setting own schedule	9.0%
10 days Paid Time Off (approx. 4% of work year)*	16.4%
20 days Paid Time Off (approx. 8% of work year)	23.0%

Note: Training opportunities, such as the popular Citywide Supervisors Academy and Citywide Management Academy, are another non-economic strategy the City may be able to expand. This is discussed further in Finding 2.

* If we assume that there are approximately 250 workdays in a year, then 10 days of paid time off represents a 4 percent reduction in labor supply. However, respondents are willing to sacrifice substantially more than 4 percent of their wages—i.e. 16.4 percent—to work at a job with this amount of paid time off. Workers are only willing to forgo an additional 6.6 percent of their monetary compensation for the subsequent ten days of paid time off, which suggests diminishing marginal returns to paid time off—though this magnitude is still larger than 4 percent. The City's current offered benefit of up to 22 days per year thus appears to align with this research as an example of a strategic cost-effective benefit offering.

Source: The Value of Working Conditions in the United States and Implications for the Structure of Wages. Nicole Maestas, Kathleen Mullen, David Powell, Till von Wachter, and Jeffrey Wenger. Harvard University, National Bureau of Economic Research, RAND, UCLA. October 2018.

Of course not every employee will equally value such non-wage amenities, and not every job lends itself to flex work. Nevertheless, it is an example of a tool for attracting and retaining talented employees with limited money available.

Further, some employees may find these amenities particularly valuable. For example, another study found that high-ability undergraduate women were willing to give up 7 percent of their pay to have a job that included the option of part-time hours, while men were willing to give up only 1 percent of pay. In addition, Gallup Workplace research stated that flex work “not only improves outcomes and employee branding but is a policy that the most talented employees desire.”

Flex Work Approaches are Increasingly Prevalent Among Employers

We note that one specific risk from expanding flexibility is the risk of employees abusing the privilege. It is important to maintain accountability measures and use flex work in roles where it makes the most sense.

However, while some employers may feel trepidation over the prospect of offering flex work opportunities to their employees or face issues of public perception, organizations seeking to adapt and compete with a changing labor market may have little choice as flex work arrangements become more common in organizations.

According to SHRM, across all sectors, more than two-thirds (70 percent) of organizations now offer some type of telecommuting, either on a full-time, a part-time, and/or an ad-hoc basis. This is up from 59 percent in 2014.

Even within government specifically, according to a recent State and Local Government Excellence survey of state and local human resource professionals,

- 56 percent of employers offered at least some flexible scheduling (e.g., 4 days at 10 hours each);
- 45 percent offered flexible work hours (e.g., starting earlier or later to adjust for rush hour travel times); and
- 17 percent offered teleworking.

One control the City could employ to both adapt to changing workforce trends and mitigate risk may be, for example, to allow flex work opportunities to high-performing employees with a track record of accountability and performance.

Used Appropriately, Remote Workers are Actually More Productive and Engaged

Multiple sources of research we encountered supported the finding that, when used appropriately, the ability to work remotely supported gains in productivity and employee engagement.

One nearly two-year study from Stanford University showed a very large productivity boost among telecommuters—equivalent to nearly a full extra day's work over the course of a week. Additionally, employee quit rates decreased by 50 percent

among the telecommuters, and they took shorter breaks, had fewer sick days, and took less time off.



Source: Nicholas Bloom, TEDx,
https://www.youtube.com/watch?time_continue=10&v=oiUyyZPIHyY&feature=emb_logo

Similarly, research from Gallup discovered that employee engagement climbs when employees spend some time working remotely and some time working in a location with their coworkers. Gallup found the optimal engagement boost occurs when employees spend 60 to 80 percent of their time—or three to four days in a five-day workweek—working off-site.

Flex work also does not have to take the form of telecommuting—another form can be allowing employees greater discretion over their hours worked, while still holding staff and management accountable for performance targets.

Flex Work Can Provide Social Benefits and Public Goods

The primary context in this report discusses flex work in terms of a budget-efficient compensation element. However, aside from serving as a recruitment and retention tool and improving employee engagement and productivity, flex work arrangements also can convey public goods and social benefits, such as:

- Improving workforce equity;
- Reduced pollution/traffic;
- Reduced office space needs; and
- Increased organizational agility in responding to disruptive events.

Workforce Equity We referenced research earlier that found that high-ability undergraduate women were willing to give up 7 percent of their pay to have a job that included the option of part-time hours, while men were willing to give up only 1 percent of pay. Past audit projects have found that the City of San Diego's workforce is about two-thirds male, and female City employees earn substantially less than male City employees.²⁴ Expanding flex work arrangements may help the City in its efforts at addressing some of these issues.

Pollution and Traffic The City also has ambitious environmental goals for reducing pollution and leading by example as part of its Climate Action Plan. According to the 2019 Employee Satisfaction Survey, more than half of respondents reported one-way commutes of more than 30 minutes, with the vast majority of employees driving alone. Flex work may allow workers to reduce driving, or be able to move their commutes away from peak travel times when roadways are most crowded.

Again, analyzing data from the 2019 Employee Satisfaction Survey, we also found that employees with longer commutes were less likely to be satisfied with their jobs overall—70 percent for employees with one-way commutes of 30 minutes or less, compared to 63 percent for employees with one-way commutes of more than 90 minutes.

Office Space Additionally, the City may be able to realize reduced office space costs by increasing flex work opportunities. Many of the City's physical offices are located downtown, where real estate is scarce and comes at a premium price. In the Stanford study referenced earlier, the company that experimented with telecommuting saved about \$1,400 per employee per year after factoring in office and IT costs.

²⁴ E.g. overall median earnings for full-time female City employees were \$67,313 in CY2017 compared to median earnings for male City employees of \$81,284. A previous OCA audit analyzed issues of pay equity and identified ways the City could strengthen its monitoring and responsiveness to this issue. Performance Audit of City Employee Pay Equity. 2019. Available at: <https://www.sandiego.gov/departments-document/performance-audit-city-employee-pay-equity>.

*Increased Organizational
Agility*

During the coronavirus pandemic of 2020, the City of San Diego faced the threat of severe operational disruptions. However, the City was able to mitigate some of this disruption by expanding flex work options, such as telecommuting and expanded Virtual Private Network (VPN) access.²⁵

**The City Has Taken Steps
to Promote Flex Work and
is Exploring Further
Options Where
Operationally
Appropriate**

Representatives we met from HR were generally understanding and supportive of the role that flex work options can play, and the City of San Diego does have some flex work options available to employees.

For example, HR provided a list of all City departments that provide alternative work schedules, such as "4/10s" (four 10-hour days in lieu of a traditional schedule of five 8-hour days). The list includes 21 separate departments as well as the Lifeguard Division of Fire-Rescue.

HR could not provide a similar list for remote work opportunities, but the City's Office of Sustainability was able to help us locate a packet of City guidance on telecommuting. The packet was from 1997, but reflected consideration of many common telecommuting questions and concerns and contained information on:

- FAQs to determine if a given role was appropriate for consideration;
- How to sign up for Prospective Telecommuter training for employee and supervisor;
- Requiring Deputy Director support and signature; and
- Information related to City risk and liability.

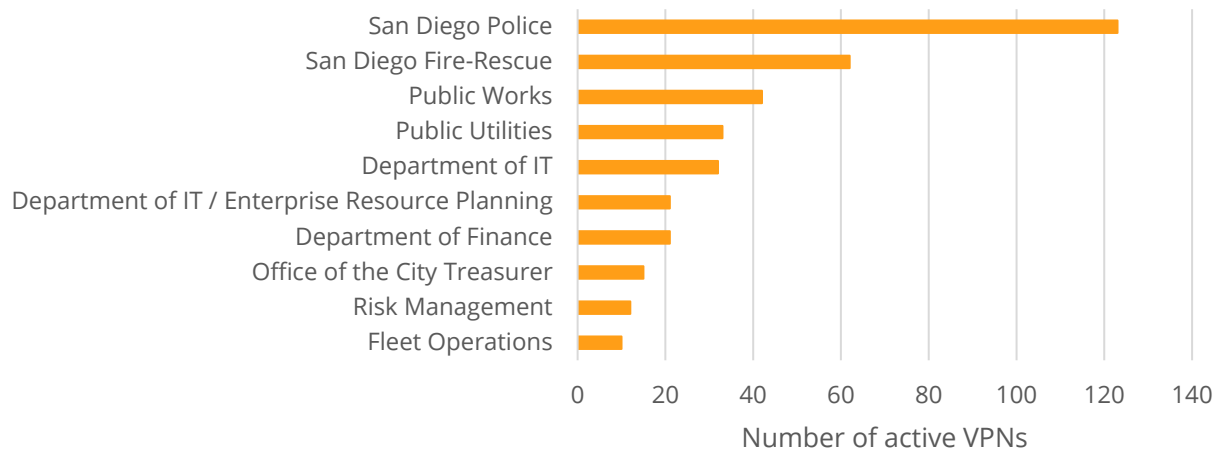
Additionally, during this audit, the Department of Information Technology was able to provide a list of VPN accounts within the City by department. While not synonymous with remote work, VPNs are one tool organizations can use to facilitate remote access to a network and can thus give some indication of remote work capability.

²⁵ VPN accounts allow for a secure connection to another network over the Internet, facilitating remote work. **Exhibit 19** is used simply to show that the City has to date made some use of this technology across various departments.

Exhibit 19 shows that the City does have various departments with this capability and active use. The list includes 467 accounts, which is roughly 4 percent of the total City workforce.

Exhibit 19

The Number of Active VPNs by City Department, December 2019



Notes: During the coronavirus pandemic of 2020, the City was actively expanding and encouraging flex work options, including increasing VPN capabilities. However, the City's limited supply did not meet the demand; as of March 2020, the Department of Information Technology estimated that less than 20 VPN tokens were available for over 1,000 pending requests.

Source: OCA, based on data provided by the Department of Information Technology.

The City has also developed remote working capabilities via cloud-based capabilities, such as OneDrive. As previously stated, aside from being valued by individual employees, the City was able to leverage these capabilities as part of its response to the coronavirus pandemic.

Thus, while some flex work opportunities exist, the City could benefit from updating its guidance or training on remote work practices and assessing how or where the benefit may be most valued among City employees. The City may also benefit from incorporating flex work into labor negotiations and monitoring its effects, including social benefits.

We recommend that HR improve these aspects, as well as work with employee labor groups and leadership in City departments to encourage expanding the use of flex work arrangements

where operationally appropriate and where accountability for high-quality job performance can be maintained.

Recommendation 5

The Human Resources Department should build on its work related to flex work arrangements, specifically by:

- a) Identifying how the City can minimize its risk and liability while offering flex work options;
- b) Articulating updated guidance for employees and supervisors regarding flex work arrangements;
- c) Encouraging expansion of flex work opportunities where appropriate; and
- d) Developing a monitoring and reporting capability for flex work's effects. (Priority 1)

City Executives We Spoke with Stressed the Value of City Employees

City executives we spoke with stressed the value of City employees and services they provide to taxpayers, residents, and visitors. The City also makes efforts to produce and communicate inspirational videos, employee achievements and profiles, and perks like discounted tickets.

Exhibit 20

Video Circulated to Employees Citywide (August 2019): City of San Diego Celebrates Employee Appreciation Month



City of San Diego Celebrates Employee Appreciation Month

Source: <https://www.youtube.com/watch?v=bWDaQwjCOyU&feature=youtu.be>.

However, research we reviewed and an expert we spoke with emphasized the importance of compensation competitiveness as fundamental. Strategies such as employee recognition or expanding flex work are supplemental—especially as they become more prevalent in the labor market. We found that widespread pay freezes have likely contributed to several negative effects on the City workforce and public services, including:

- Increased recruitment and retention challenges (and resulting effects such as impact to public services, cost of turnover, etc.);
- Damage to the City's brand as an employer;
- Employee dissatisfaction; and
- Increased risk of fraud, waste, and abuse.

Further, because the City has not sufficiently planned for foreseeable and likely expenditure needs or adapted to its peer labor market, the City is now in a more difficult position for restoring pay competitiveness even to low- to mid-market levels going forward.

With additional efforts from City leadership, HR, Personnel, the Department of Finance, and others, the City can further support its employees while planning for fiscal sustainability and high-quality public services for taxpayers, residents, and visitors.

Finding 2: The City Can Strengthen its Efforts to Monitor and Communicate Core Metrics of its Workforce, in Order to Achieve its Broad Strategic Objectives and Provide Wide-Ranging Public Services

Finding Summary

Despite its unusual market position discussed in Finding 1, the City has not historically monitored what effects its lagging compensation competitiveness and switch from traditional defined benefit pensions may be having on its workforce. In addition, compensation is just one of many metrics the City should be monitoring and responding to. To that end, we found the City can substantially strengthen its overall strategic human capital management—specifically, in areas relating to monitoring and communicating trends related to turnover, vacancies, employee sentiment, and others.

This approach is important in general, as personnel expenditures represent about 70 percent of total expenditures from the City's General Fund; across all funds, total personnel expenditures for the City are approximately \$1.5 billion per year. But additionally, evidence-based analysis is important in order to evaluate the effects of major workforce changes; it can also help an organization identify emerging risks, as well as weigh trade-offs and recruitment and retention challenges among its different employee groups, given the City's broad strategic objectives and wide-ranging public services.

For a specific example, after years of frozen pay, in 2017 the City approved large pay raises to Police officers. Representatives from HR and the Police described a recruitment and retention crisis, as uncompetitive pay failed to keep up with other law enforcement agencies. However, while officer separations and vacancies had been increasing at the time the raise proposal was being discussed, we found the turnover rate and the quits rate for Police was actually significantly below the City's average rate, and had been for many years.

The importance of Police work as a critical responsibility of the City is codified in City Charter Section 11.1. And of course the Police will focus on their own operational challenges. We found Police representatives to be proactive and data-driven in monitoring their own staffing challenges. However, HR did not publicly provide key elements of advisement or comparative context at the time. Specifically lacking was information, or even reference to how turnover, recruiting, or compensation competitiveness challenges among other groups of City employees or other labor market trends compared to Police's challenges. If that information had been included, it would have shown that although Police pay was below the median of benchmarked jurisdictions, other City of San Diego employee groups actually had much lower rates of compensation competitiveness, and much higher rates of turnover. Additional context would include that turnover rates and recruiting difficulties have been increasing across the public sector in general, and that other factors, such as cancelled Police Academies could be contributing to SDPD's staffing challenges.

We also found that neither HR nor Personnel tracked the effect, if any, of the pay raises on Police officer recruitment or retention. We found that quits rates and turnover rates for Police did show modest decreases after the raises, although according to SDPD's own internal tracking the number of officers departing for other law enforcement agencies is essentially unchanged.

While some decentralization of responsibilities and information may confer certain advantages, we found that communication challenges and a lack of strategic guidance appear to have historically hampered the City from taking a more strategic approach to workforce management. However, the City has taken some steps at monitoring some of core workforce metrics. For example, it has recently begun monitoring employee satisfaction, has analyzed its compensation patterns such as competitiveness with other cities as well as its internal pay equity, and possesses much of the information and capabilities that it needs to take a more evidence-based approach to its human capital management.

Given its limited resources and wide-ranging strategic goals, the City should strengthen its monitoring and communication capabilities regarding its most expensive and valuable asset—its \$1.5 billion workforce. To do so, we make several recommendations, including: formally documenting and supporting HR and Personnel's SHCM-capabilities and efforts currently underway; requiring HR and Personnel to jointly present an annual workforce report to City leaders and the public, identifying key City positions facing challenges related to recruitment, retention, employee satisfaction and other metrics; and ensuring that information related to compensation increases for employees is put into comparative context and made publicly available.

Strategic Human Capital Management is an Evidence-Based Approach to Help an Organization Carry Out its Strategic Goals

Many modern management articles refer to employees as an organization's most important asset, a sentiment echoed by leaders within the City of San Diego. According to research by Gallup Workplace, just a few decades ago, tangible business assets used to account for a majority of organizational value; today, they have been supplanted by intangible assets, such as employee talent.

As the Society for Human Resource Management (SHRM) put it in its piece "Creating an Effective Human Capital Strategy,"

In many organizations, compensation is one of the largest costs. In service organizations, it often represents 70 percent to 80 percent of business cost. Adding in the costs of training and other HR management activities, one finds that the HR function often has responsibility for a very large portion of total expenditures—and this portion is growing.

Indeed, within the City of San Diego, personnel expenditures represent about 70 percent of total expenditures for the City's General Fund. Personnel expenditures for the City's more than 11,500 employees totaled approximately \$1.5 billion in 2019. Thus, it is extremely important to collect, measure, analyze, and respond to changing workforce needs.

While there are different opinions about organization size or strategies, many best practices in human resource management

emphasize the importance of knowing key aspects about the workforce, and taking a strategic approach to questions of employee management, rather than simply responding to complaints or anecdotes about the workforce. This approach is known as Strategic Human Capital Management, or SHCM. SHCM is a data-driven approach examining, linking, and acting on characteristics and patterns within an organization's workforce—its most important asset—to help the organization carry out its varied strategic goals.

While Finding 1 discussed the City's challenges with compensation competitiveness, many other aspects of human capital management are related or important in their own right. There are dozens of SHCM metrics for organizations to be able to track, including:

- Overall turnover rate;
- Voluntary turnover (“quits”) rate, including by employee group, age, and years of service;
- Cost of turnover;
- Vacancy rate;
- Workplace flexibility—“percentage of employees that have access to and use flexible scheduling, compressed work week, job sharing, and telecommuting;”
- Employee satisfaction, engagement, and commitment;²⁶
- Compensation competitiveness to other benchmark organizations;²⁷ and
- Pay equity within a workforce.²⁸

²⁶ For additional examples see Human Capital - Tools and Strategies for the Public Sector. Sally Coleman Selden. 2009, as well as Human Resources Management for Public and Nonprofit Organizations. Joan E. Pynes. 2013.

²⁷ See Finding 1 for more detail.

²⁸ A previous OCA audit analyzed issues of pay equity and identified ways the City could strengthen its monitoring and responsiveness to this issue. Performance Audit of City Employee Pay Equity. 2019. Available at: <https://www.sandiego.gov/department-document/performance-audit-city-employee-pay-equity>.

LinkedIn's guide to employee retention, for example, advises managers to "assess their employee turnover quarterly, and compare it to the benchmark you've set." And the website for the City's Human Resources Department describes limiting job turnover as a fundamental component of the department's mission.

The City has made some efforts to more strategically monitor some of these fundamental workforce metrics in recent years. While not every measurement may be feasible, those listed previously are both important and examples of metrics for which the City already has data and is capable of monitoring and communicating.

Most importantly, utilizing metrics such as those listed previously represents taking a strategic, evidence-based approach to fundamental workforce questions. As Gallup Workplace summarized in its 2019 piece "What HR Needs to Succeed (But Most Don't Have Yet)," organizations should:

1. Raise the organization's expectations for results.
2. Empower HR to make data-driven decisions in a realistic way.
3. Free [HR] from primarily focusing on tactical, compliance and compensation issues.
4. Develop and invest in your managers (across the organization).

Currently, HR makes substantial efforts on issues of regulatory compliance and discipline issues across the City. They also have run the City's highly-popular Citywide Management Academy and Citywide Supervisors Academy.²⁹ While these are important tasks, the City can strengthen HR's function with an empowered, strategic approach to human capital management (HCM). Such an approach is fully in keeping with the City's Strategic Plan, which identifies both customers and employees as partners, recognizes "that an engaged City workforce is the key to quality

²⁹ In March 2020, the City announced that the Supervisors Academy would be evolving to an open enrollment curriculum, culminating in the Public Service Management Certification. According to the City, the effort is aimed at promoting and expanding opportunities for professional development to employees Citywide.

customer service," and seeks to "measure results and seek improvement in everything we do."

As part of City efforts to support HR in its efforts to strengthen its strategic human capital management capabilities:

Recommendation 6 The Human Resources Department (HR) should outline and formally document its own plan, including goals, responsibilities, and the organizational efforts it is undertaking internally to strengthen its emphasis on Strategic Human Capital Management efforts.

City Executive Management should also consider the feasibility of maintaining support for—if not expanding—professional development opportunities that HR provides for departments across the City. (Priority 2)

The City Could and Should Substantially Strengthen its Overall Strategic Human Capital Management—Specifically, by Monitoring and Communicating Trends Related to Turnover, Vacancies, Employee Sentiment, and Compensation

We found that the City has not historically monitored the effects that its lagging compensation competitiveness and switch from traditional defined benefit pensions may be having on its workforce in addition to many other fundamental metrics. The City could and should substantially strengthen its overall strategic human capital management—specifically, in areas relating to monitoring and communicating trends related to turnover, vacancies, employee sentiment, and compensation.

The City has much of the information that it needs to take a more evidence-based approach in managing its workforce. However, this information is largely decentralized, and there is little focused responsibility for strategic human capital management.

Throughout the audit, we found that stakeholder knowledge of key workforce information was largely anecdote-driven. For example, there is a widespread perception that the City of San Diego has major problems with its recruitment and retention. Such a sentiment was expressed to us repeatedly by members of the City Council, employee labor organizations, and in a Citywide Management Survey we performed.

**The City's SHCM Efforts
Should be Led by HR and
Assisted by Personnel,
but Neither Department
Has Historically
Conducted Robust
Analysis and Monitoring
of Key Workforce Data**

However, when we asked, neither HR nor Personnel had attempted an analysis to determine how the City's diminishing pay competitiveness had impacted trends within the City workforce like turnover, quits, vacancy, or employee sentiment.

This is particularly relevant given the City's recent history of exchanging defined benefit retirement plans for defined contribution plans, as well as the freezing of wages for most employees over multiple years. Notably, Proposition B did actually allow for increasing employee salaries, provided two-thirds of the City Council voted for approving such a measure; this may have given the impression to voters that there was a responsive mechanism in place to make adjustments if issues such as recruitment, retention, employee morale, etc. became too problematic.

However, we found that the City's internal monitoring over its \$1.5 billion workforce has significant room for improvement. **Exhibit 21** summarizes our assessment of the City's monitoring and analysis of Strategic Human Capital Management Metrics.

Exhibit 21

Auditors' Assessment of the City's Monitoring and Analysis of Strategic Human Capital Management Metrics

SHCM Metric	HR	Personnel	Performance and Analytics
Overall Turnover Rates	-	Analyzed upon request for certain classifications, but calculated unconventionally (see Finding 3)	-
Overall Quits Rates	-	-	-
Proactive Identification of Job Areas with Highest Turnover or Quits Rates	-	-	-
Cost Estimates Associated with Turnover or Quits	-	-	-
Vacancy Rates	Yes	Yes	Yes
Recruitment Trends	-	-	-
Employee Satisfaction	- Yes	- (Own department only)	Biennial Employee Satisfaction Survey (ESS)
Compensation Competitiveness	Yes	Analyzed upon request for certain classifications	-

Note: Elements of some metrics may be present (e.g. an individual department tracking their own turnover), but a "-" indicates a metric that the entity listed could not provide or does not actively monitor Citywide.

Source: OCA, based on interviews and review of provided datasets.

Much of the rest of this Finding explores our analyses of these sorts of topics. We start with overall turnover, since numerous stakeholders identified that as the highest-risk area to the City.

Overall Citywide Turnover is Lower than Some Benchmarking Data, but High Compared to Other Large Cities We Found

When we analyzed actual employee separation data, we found that the overall turnover rate Citywide has been about 9 percent annually in 2016, 2017, 2018, and 2019.³⁰

Many organizations have higher turnover rates than 9 percent. However, when we searched specifically for turnover rates within large city governments, we found that the City of San Diego appears to have one of the highest total turnover rates. See Exhibit 22.

Exhibit 22

In the Absence of Information from HR or Personnel, We Found the City of San Diego's Overall Turnover Rate is Toward the Higher End Among Cities for Which We Found Comparable Data

Entity	Annual Turnover Rate Over FY16 and FY17
Philadelphia	12.2%
San Diego	8.5%
Phoenix	8.3%
Modesto	7.8%
Chula Vista	7.5%
Long Beach	6.4%
Oakland	4.6%

Notes: We used figures from FY16 and FY17 because those were the most recent years with benchmarking data available across each of the cities shown. The turnover rate in 2018 and 2019 for San Diego was also about 9 percent.

Source: OCA based on review of publicly available information published by other large municipalities.

³⁰ This is after taking out separators characterized as "End of Limited Appointment," in accordance with the methodology utilized by the U.S. Bureau of Labor Statistics. If those limited appointment employees are included, the turnover rate has been about 10 percent in each of the years 2016 - 2019.

*A Closer Look at Voluntary
Turnover—i.e. Quits Rates*

Turnover happens for a variety of reasons—including discharges, retirements, and other voluntary separations, such as taking another job or going back to school.

Thus, within overall turnover, the share of employees quitting—a technical term defined by the U.S. Bureau of Labor Statistics (BLS) as voluntary separations other than retirements—is another important metric for an organization to evaluate. The employee is taking their talent elsewhere when it could have been kept “in house.” Voluntary quits can also be much more disruptive than a retirement, since they may be harder to anticipate. Quits also tend to increase with strong economies and appear to be increasing across the private, non-profit, and public sectors in recent years.

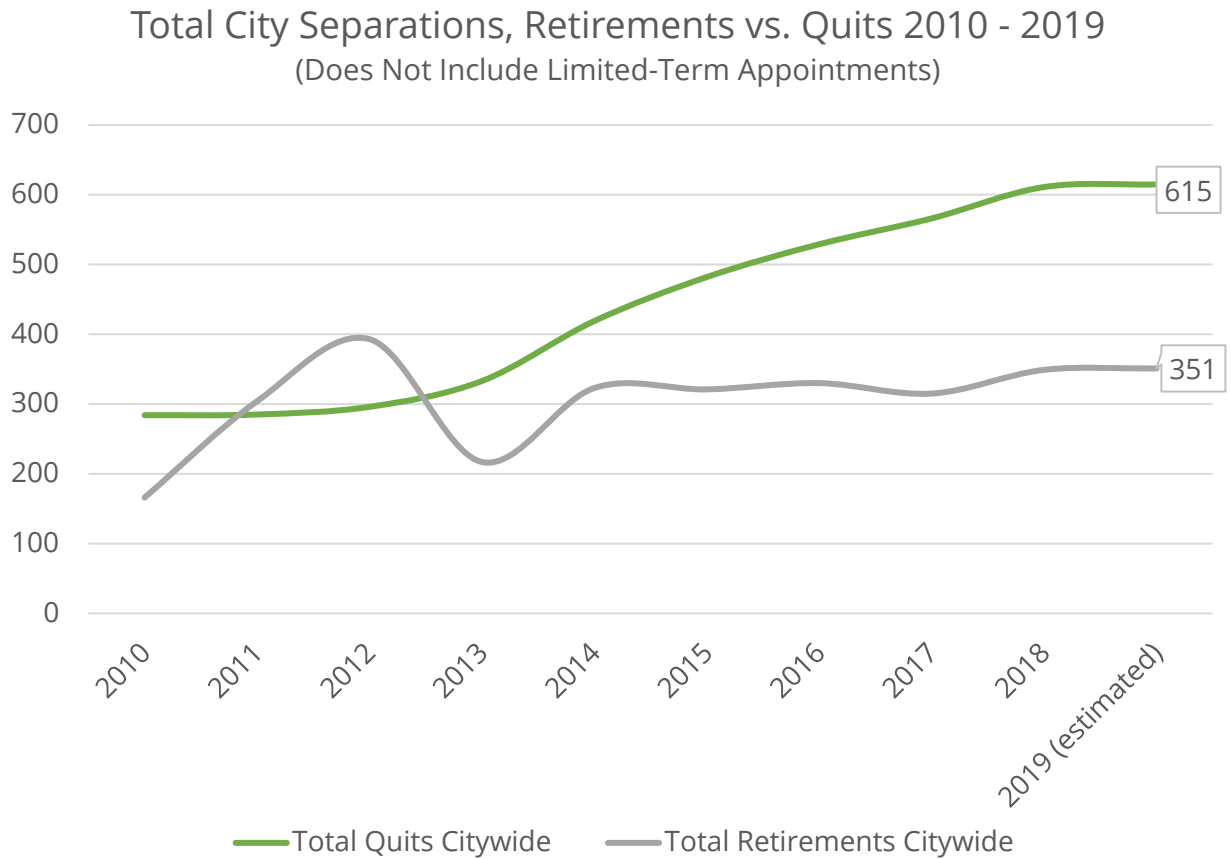
As we noted in a previous report, despite the common narrative of a “Silver Tsunami” of retiring Baby Boomers within government across the U.S., for the City of San Diego, employees quitting have actually overtaken retirements as a leading cause of separation.³¹ Currently, the overall quits rate for City employees is about 5 percent annually. This works out to approximately 550 to 600 employees quitting the City each year. **Exhibit 23** shows how the number of City quits has increased significantly over time, while the number of retirements has remained relatively stable since 2014.

Further, according to our Citywide Management Survey, managers throughout the City believe that turnover is higher among their highest-performing employees, although neither HR nor Personnel could provide analysis to support or contradict this perception.

³¹ See OCA’s Citywide Human Capital Fact Book. 2018. Available at: https://www.sandiego.gov/sites/default/files/19-001_citywide_human_capital_fact_book.pdf.

Exhibit 23

Quits Rates Have Steadily Been Increasing Over the Last Decade, and the City Now Loses Far More Employees to Quitting than it Does to Retirements



Notes: A previous version of this exhibit was presented in mid-2018 as part of our Citywide Human Capital Fact Book and used a slightly different methodology for the purposes of that report—i.e. this version includes Quits and Retirements for all positions throughout the City (except limited-term appointments) and provides updated figures for 2018 and 2019. The material trends of the exhibit are the same in both versions.

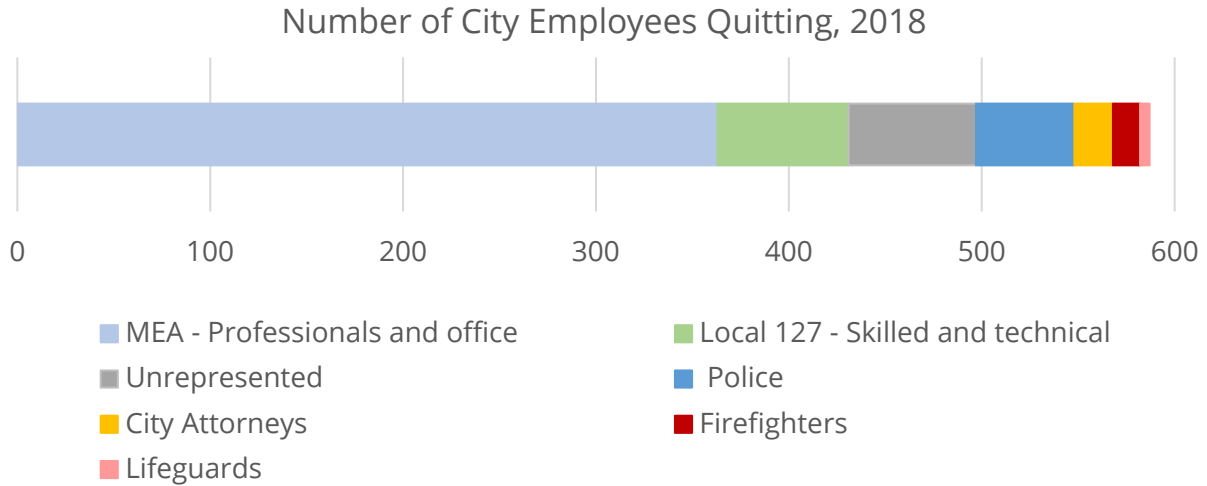
Source: OCA, based on separations data provided by Personnel.

Quits Rates Vary Widely Among Different Employee Groups Within the City

The approximately 600 employees who quit in 2018 came from many different areas of the City. In order to identify higher-risk areas where the City may be facing particular retention challenges in its workforce, and since recent salary studies commissioned by the City included breakouts by employee labor groups, we also analyzed quits by labor group. In 2018, the most recent full year for which data was available, we found wide variation in the total numbers and rates of these separations. See Exhibits 24 and 25.

Exhibit 24

Most Quits Came from Professional and Office-Type Positions



Source: OCA, based on separations data provided by Personnel.

Looking at rates, instead of total counts, highlights other risk areas:

Exhibit 25

Annual Quits Rates Vary Widely Across Different Employee Groups Within the City

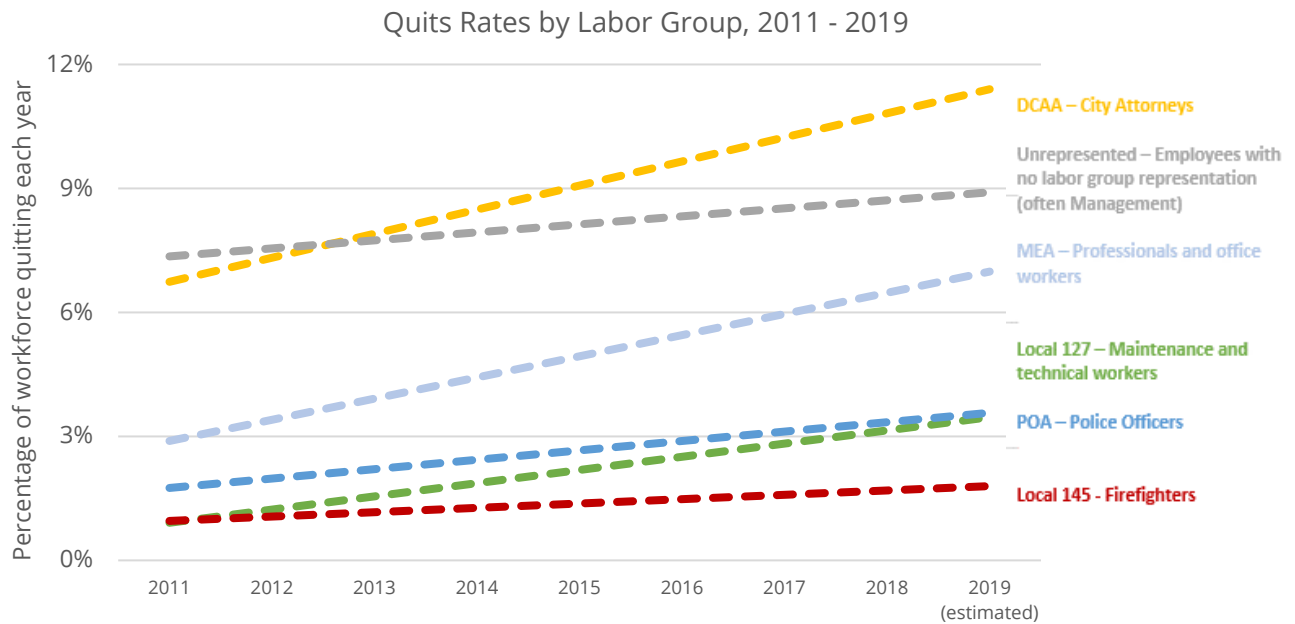
Quits Rate, 2018	Employee Group
12.7%	DCAA – City Attorneys
8.4%	Unrepresented – Employees with no labor group representation (often Management)
6.6%	MEA – Professionals and office workers
3.6%	Local 127 – Maintenance and technical workers
2.8%	POA – Police Officers
1.6%	Local 911 – Lifeguards
1.5%	Local 145 – Firefighters

Source: OCA, based on separations data provided by Personnel.

While Exhibits 24 and 25 are a snapshot, we also calculated historical rates, which showed similar variation as well as an increase in recent years across nearly every group. See Exhibit 26.

Exhibit 26

Annual Quits Rates Vary Widely but Have Generally Been Increasing for Employee Groups Across the City



Notes: Trendlines are displayed for visual clarity. Local 911 is not shown because the number of voluntary separations among permanent staff was too low in some years for reliability purposes.

Source: OCA, based on separations data provided by Personnel.

The Number and Age of Vacancies Has Increased and Also Show Wide Variation Across Different Employee Groups

The percentage of positions that are not occupied by an employee—the vacancy rate—is another fundamental metric of human capital management and an area of increasing concern to the City Council and other leaders. The vacancy rate can give an organization a window into areas where it may be at short strength relative to staffing and service goals.

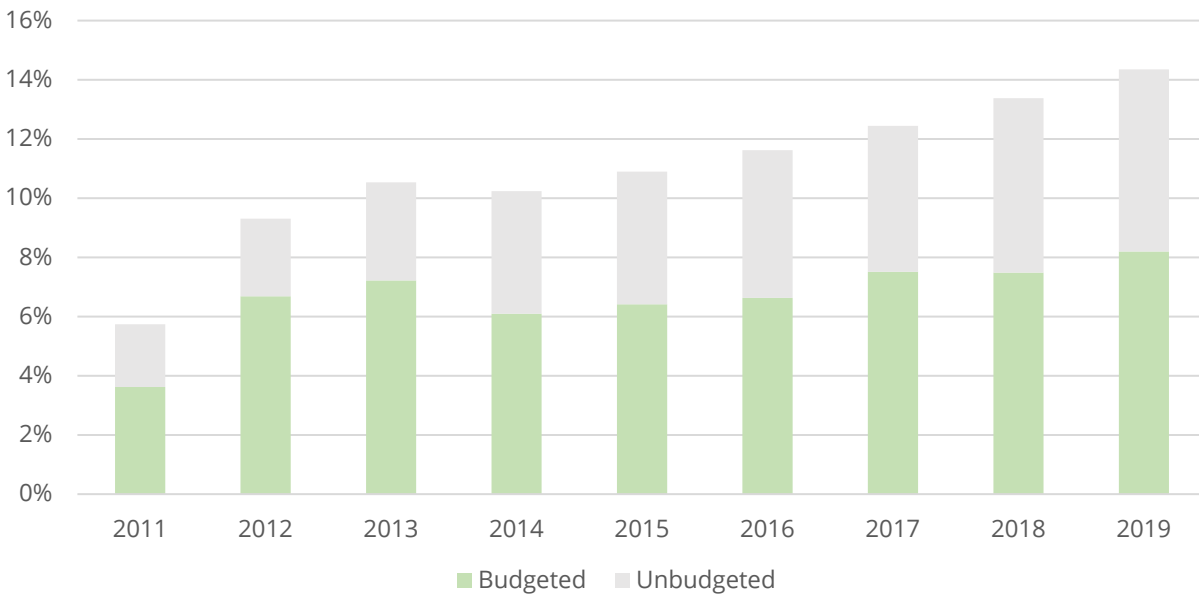
Vacancies may be due to a variety of factors, including high turnover, recruiting difficulties, and the incentive for

organizations to maintain a cushion during fiscally tight years without impacting employees or services.

We found that the City's overall vacancy rate has increased almost every year in recent history. The rate grew particularly swiftly from January 2011 to January 2012, and has continued growing since. In January 2019, the budgeted vacancy rate was 8.2 percent, and the overall vacancy rate was 14.3 percent.³²

Exhibit 27

The Citywide Position Vacancy Rate Has Grown Significantly Since 2011



Notes: Figures are calculated using all unique positions throughout the City, based on SAP Labor Detail Reports as of January 1 of each year.

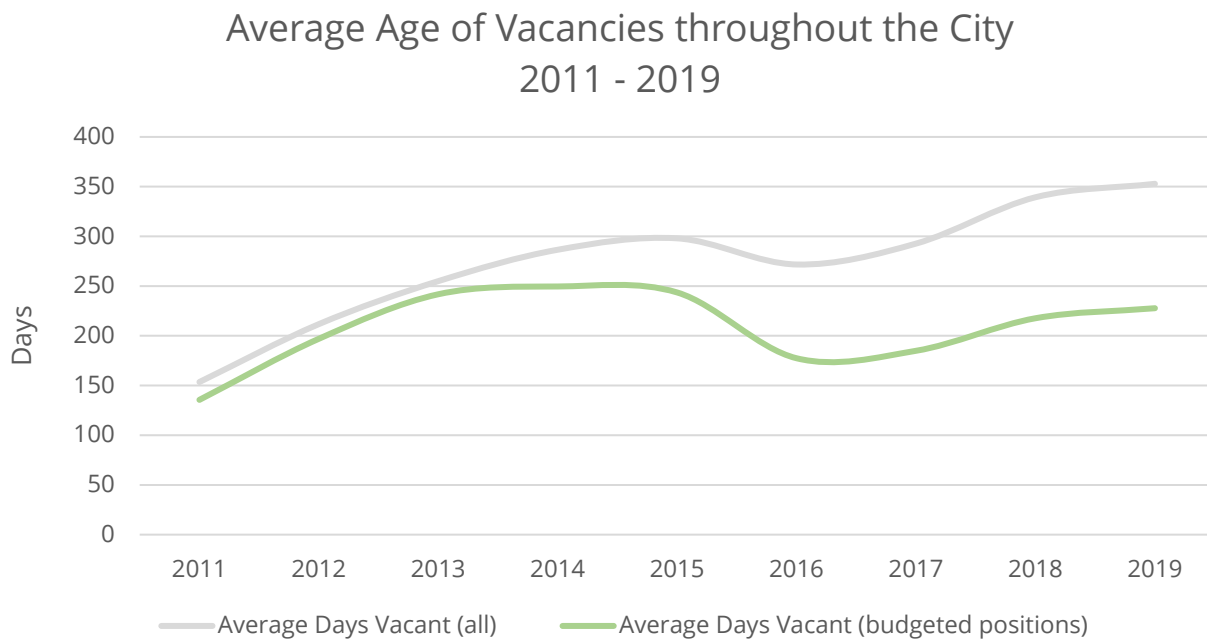
Source: OCA, based on Labor Detail Reports from the City's enterprise resource planning system, SAP.

³² Our analyses included calculated figures using all unique positions throughout the City, for both budgeted and unbudgeted positions. For example, **Exhibit 27** includes breakouts for both budgeted and unbudgeted positions. Some stakeholders we spoke with stated that our analyses should have focused on budgeted vacancies only. However, there may be operational impacts from total overall vacancies as well; for example, when a budgeted position cannot be filled but is kept as an unbudgeted position to provide the possibility of filling it in the future (instead of being eliminated). Thus, we included calculations based on all positions. We acknowledge that more detailed analyses can be done for any of these metrics—for example, more detailed breakouts focusing separately on budgeted vs. unbudgeted vs. overall vacancies for each of the exhibits in this report. However, for the purposes of this report, we believe our material points remain: that vacancy rates and vacancy ages have been increasing in the City in recent years; that vacancy rates and ages also greatly vary across different groups throughout the City; and that vacancy rates and ages are an important metric that an organization can monitor to assess areas of higher- and lower-risk as part of its SHCM.

We also found the age of a given vacancy has also increased, from about 5 months in 2011 to nearly 12 months currently, as shown in **Exhibit 28** below. While some level of vacancies will always exist, the City's increasing vacancy rate is also likely having an impact on operations at this point, as more than 2,000 positions are vacant and the amount of time these positions have remained vacant has more than doubled.

Exhibit 28

The Average Age of Vacancies Has Increased Steadily and is Currently About 1 Year Old



Source: OCA, based on SAP Labor Detail Reports as of January 1 of each year.

However, again, some labor groups appear to be more affected than others. See **Exhibits 29 and 30**. For example, vacancy rates for unrepresented employees (those with no union representation), and MEA (many professional office-type City workers) have increased to rates of 21 percent and 16 percent, respectively; both groups also have relatively high rates of turnover compared to other employee groups. This may indicate particularly acute risk in these operational areas relative to City service goals.

Exhibit 29

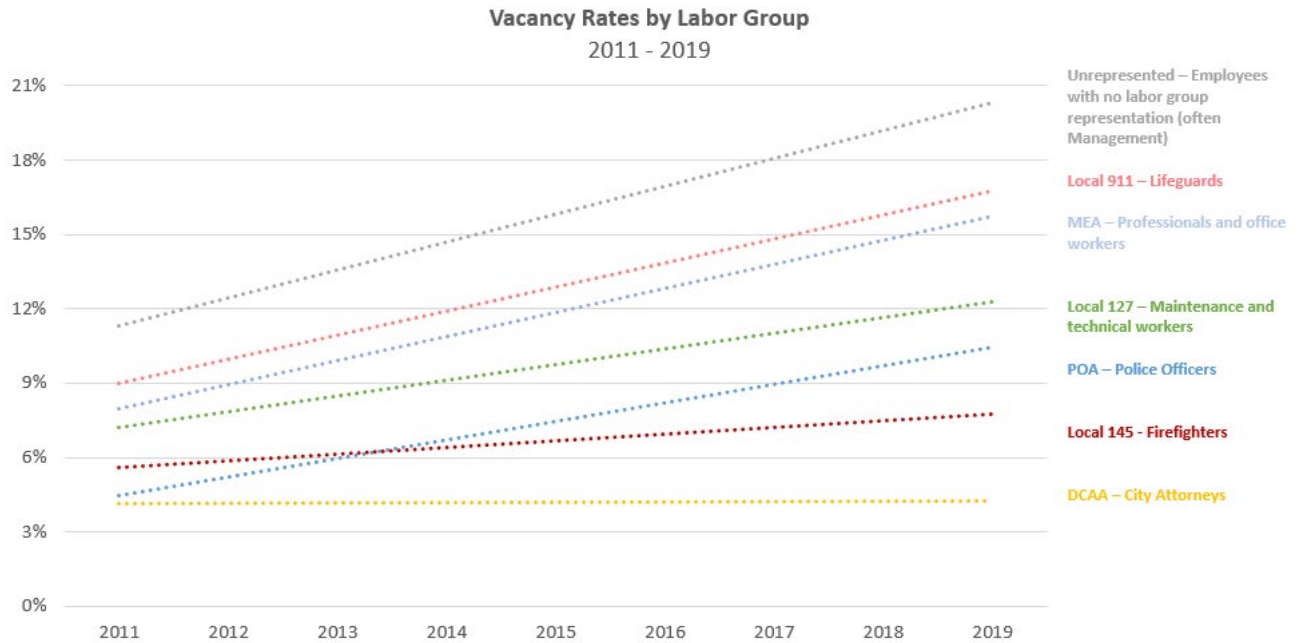
The Average Age of Vacancies Has Increased Steadily and is Currently About 1 Year Old

Labor Group	Percent of Positions Vacant	Average Days Vacant
Unrepresented – No labor group representation (often management-level employees)	21%	482
MEA – Professionals and office workers	16%	350
Total Citywide	14%	353
Local 127 – Skilled maintenance and technical workers	13%	211
Local 911 - Lifeguards	12%	242
POA – Police officers	9%	477
Local 145 - Firefighters	9%	187
DCAA – City Attorneys	5%	102

Source: OCA, based on SAP Labor Detail Report.

Exhibit 30

Annual Vacancy Rates Vary Widely but Have Generally Been Increasing for Most Employee Groups Across the City



Notes: Trendlines are displayed for visual clarity.

Source: OCA, based on SAP Labor Detail Reports as of January 1st of each year.

**Why SHCM is Important:
Police Example**

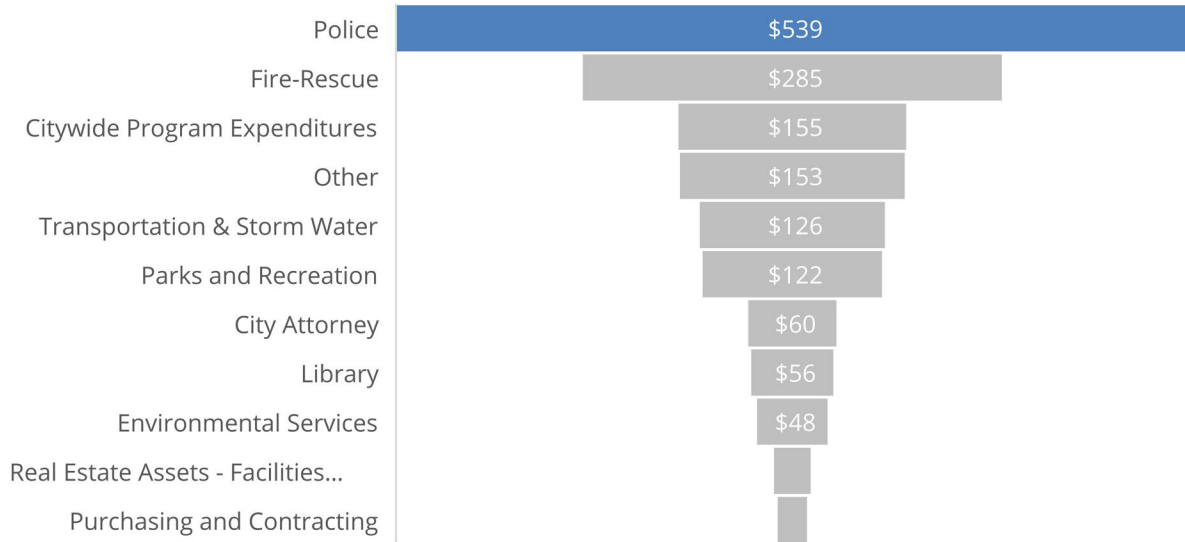
The issue of large raises given to Police in 2017 provides an example of the importance of evidence-based SHCM for an organization with many mandates, goals, and services.

Public safety is a crucial responsibility of the City. City Charter Section 11.1 emphasizes the importance of Police, stating that the Council “must give priority in the funding of municipal services to the need of the residents for Police protection.”

Exhibit 31 shows the importance of the Police Department as a priority for City expenditures; decisions about its workforce have significant implications for the entire City.

Exhibit 31

Fiscal Year 2020 Adopted General Fund Expenditures by Department (in Millions)



Notes: The Other category includes the combined totals for: City Clerk, City Council, City Treasurer, Communications, Debt Management, Department of Finance, Department of Information Technology, Development Services, Economic Development, Ethics Commission, Government Affairs, Human Resources, Infrastructure/Public Works, Internal Operations, Neighborhood Services, Office of Boards and Commissions, Office of Homeland Security, Office of the Assistant COO, Office of the Chief Financial Officer, Office of the Chief Operating Officer, Office of the City Auditor, Office of the IBA, Office of the Mayor, Performance & Analytics, Personnel, Planning, Public Utilities, Real Estate Assets, Smart & Sustainable Communities, and Sustainability.

Source: City of San Diego FY20 Adopted Budget.

The San Diego Police Department Reported Ongoing Staffing Challenges that Were Being Driven by Issues of Recruitment, Retention, and Poor Pay Competitiveness

For years, SDPD reported staffing challenges as they attempted to increase their total number of officers. SDPD was facing ongoing issues with vacancies, and its sworn turnover and quits rates had been increasing. The City's leadership and public were understandably concerned.

In December 2017, HR presented an item before City Council proposing raising pay for sworn officers by 25.6 to 30.6 percent over several years,³³ in order to stem the recruitment and

³³ Pensionable pay increases for all POA-represented employees were as follows:

- 8.3 percent on July 1, 2018
- 5 percent on January 1, 2019
- 7.3 percent on July 1, 2019

retention crisis—especially the challenge of losing experienced officers to other cities.

Exhibit 32

Excerpt from HR's Presentation to City Council and the Public Regarding Recruitment, Retention, and Proposed Pay Raises. December 2017.

Human Resources Department

Recruitment and Retention Challenges

- Significant Recruitment and Retention problems
 - Loss of Recruits and experienced Police Officers who left for other agencies.
 - Exit interviews show compensation as primary reason for departure.
- October 2017 Total Compensation Survey placed the City among the lowest of the 18 agencies surveyed
- 25% to 30% of sworn personnel are in DROP or eligible to retire in the next 3-5 years.

Source: Council Docket.³⁴

There was Broad Concern for the Police Department's Challenges

When the proposed pay raise was presented at Council, many speakers were present, stressing the importance of Police work, and the importance of competitive compensation.

Representatives from HR, the Mayor, the Police union (POA), and SDPD again re-iterated the staffing challenges faced by the Police Department, and characterized the staffing issues as driven by a major ongoing recruitment and retention problem; "retention" was cited at least 8 times, "recruitment" another 7 times.

-
- 5 percent on January 1, 2020
 - Additional 5 percent for POA employees with at least 20 years of sworn service on July 1, 2019

The increase in overall total compensation was somewhat less than 25.6 to 30.6 percent since some of the raise in pay was offset by reduction in benefits.

³⁴ Available at:

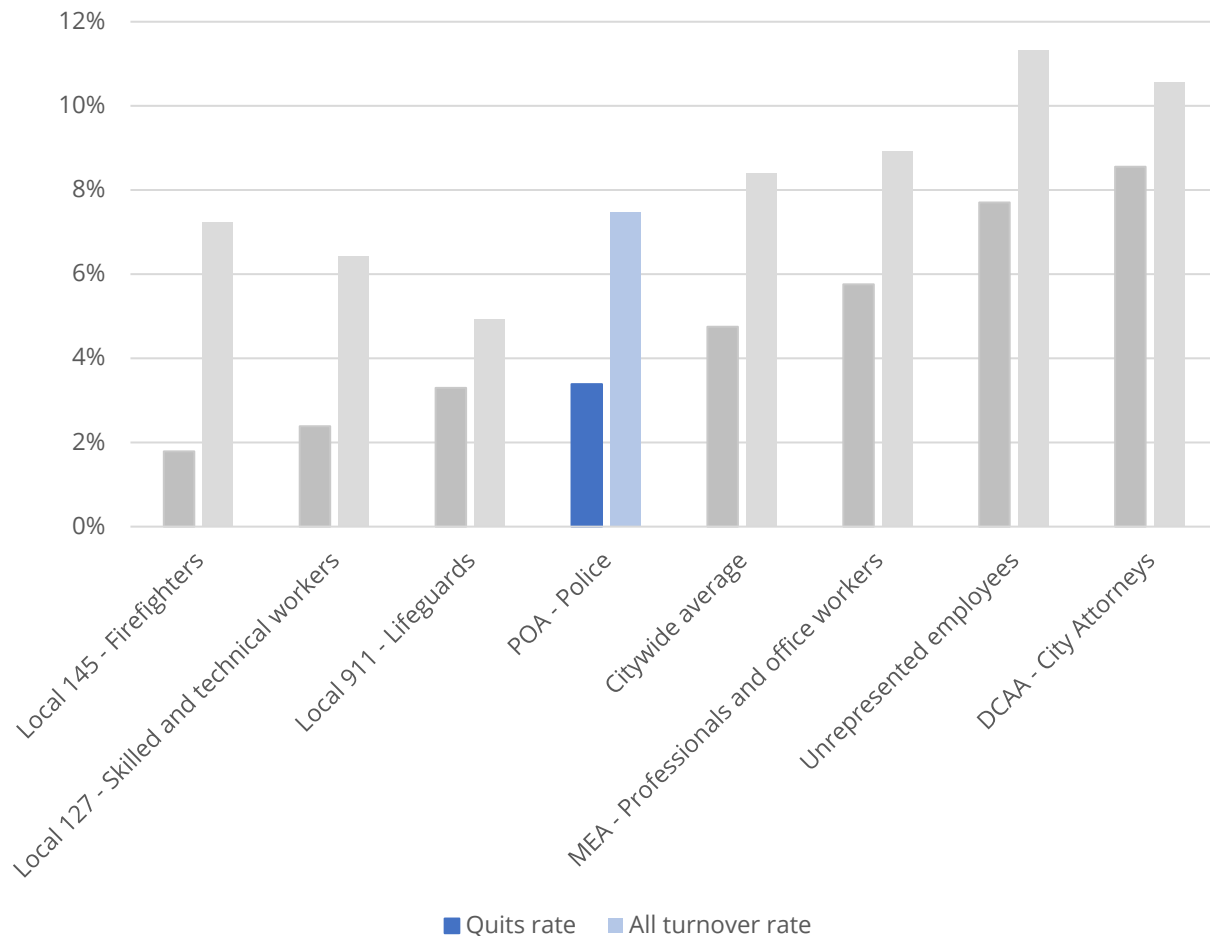
https://onbase.sandiego.gov/OnBaseAgendaOnline/Meetings/ViewMeeting?id=1001&doctype=2#_Toc503178472.

Police's Turnover and Quits Rates at the Time Were Below the City Average and Had Been for Many Years

At the time, SDPD had approximately 180 vacancies in its sworn ranks, and its turnover and quits rate had been increasing somewhat. However, when we analyzed retention for groups across the City, we found that, at the time the raise proposal was being discussed, the annual quits rate for Police was actually significantly below the City's average rate and had been for many years. Police's overall turnover rate was also modest compared to other employee groups within the City. See Exhibit 33.

Exhibit 33

Quits Rates and Turnover Rates by Labor Group, Annualized Average Over 2015 - 2017



Notes: Rates shown are the average annualized rates from 2015-2017, the time period most relevant to this section of the report. They are arranged in order of increasing quits—or voluntary departures other than retirements.

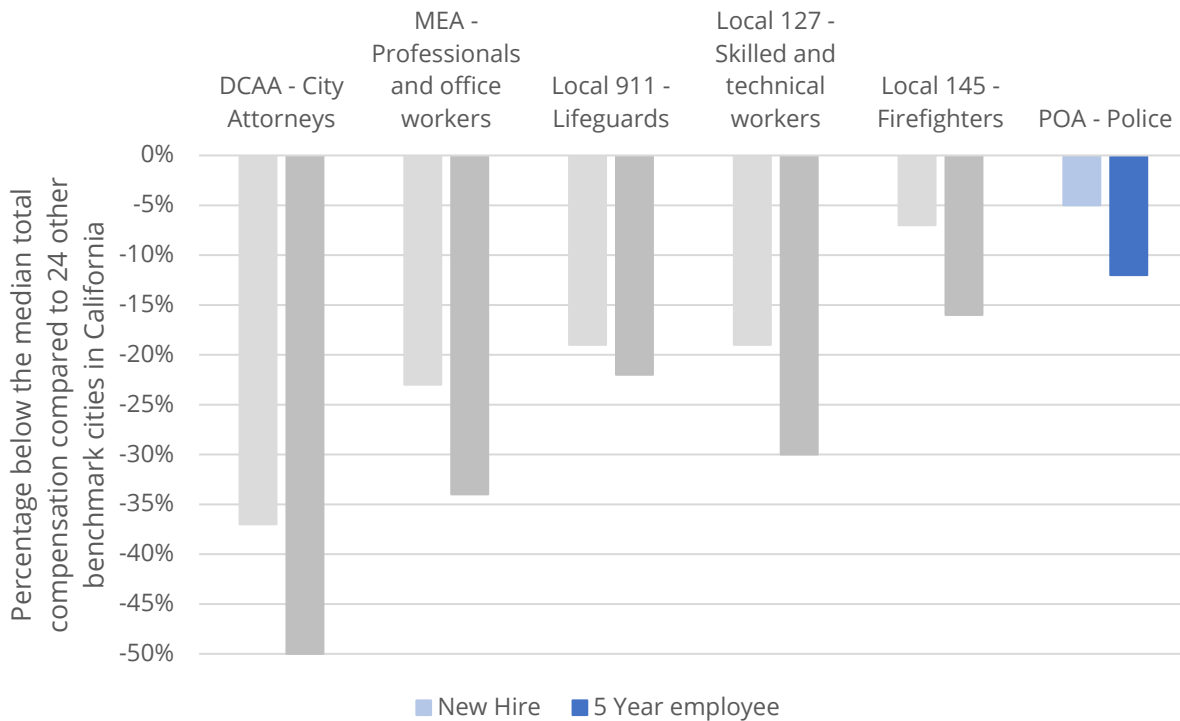
Source: OCA, based on SAP workforce and separations data.

The Police Faced Legitimate Compensation Competitiveness Challenges, Although They Had the Most Competitive Total Compensation Compared to Other Groups Across the City

The Police at the time also faced legitimate compensation competitiveness issues, with total compensation around 5 to 12 percent below other benchmark California cities. And according to SDPD and HR, the County Sheriff's office was about to increase pay significantly. However, groups across the City faced challenges with compensation competitiveness at the time.³⁵

Exhibit 34

Compensation Competitiveness by Labor Group, 2015*



Notes: Unclassified employees who are not represented by an employee labor group were not included in this table since they were not included in the City's salary studies. The salary study for Police used a comparative assessment for an 8-year employee instead of a 5-year employee.

* The Police Officers Association was not included in the City's 2015 salary study; but had a separate, similar study in 2017 as part of a contract renegotiation. Those 2017 results are the -5% and -12% shown for Police above.

Source: OCA, based on salary studies conducted on behalf of the City by Koff and Associates.

³⁵ The Police also were the only employee group that had retained a defined benefit pension as a result of Proposition B.

**While the Police
Advocated for
Themselves, HR and
Personnel's Strategic
Advisement Was Not
Robust**

When we asked HR—which leads the City's efforts with contract negotiations for all six recognized labor groups—for the supporting analyses substantiating the Police Department's recruitment and retention issues, HR responded that they did not have any and that they believed the Police Department had compiled its own recruitment and retention figures.³⁶

Exhibit 35 shows a weekly staffing update from the Police Department, which was shared at the time with City leaders while negotiations were underway.

However, the report shows that losing officers to other law enforcement agencies actually accounted for a relatively small number of separations over the preceding years. Specifically, from FY15 to FY17, the report shows that about two officers left SDPD for other law enforcement agencies each month. With approximately 1,800 sworn officers in SDPD, this would represent a rate of about 1.2 percent of officers leaving for other law enforcement agencies per year.

The last line of the report does show an uptick to four per month in FY18, but the figures are based on only a few months of information from that summer. A previous report from the City's Independent Budget Analyst had also cautioned against relying on just a few months of information when analyzing retention trends.

³⁶ When we asked Personnel for any analyses supporting the Police request, they told us that this item did not utilize the Special Salary Adjustments process, so they also did not provide analysis regarding recruitment or retention trends.

Exhibit 35

Weekly Staffing Update Email for Police, Circulated October 2017 as Negotiations Were Underway

WEEKLY STAFFING UPDATE FY18
Monday, October 16, 2017

FY 11 Total Sworn Attrition: 70 departed (6 per month)
FY 12 Total Sworn Attrition: 95 departed (8 per month)
FY 13 Total Sworn Attrition: 119 departed (10 per month)
FY 14 Total Sworn Attrition: 162 departed (14 per month)
FY 15 Total Sworn Attrition: 153 departed (13 per month)
FY 16 Total Sworn Attrition: 147 departed (12 per month)
FY 17 Total Sworn Attrition: 164 departed (14 per month)
FY 18 Total Sworn Attrition: 59 departed (15 per month)

FY 11 Lost to Other Law Enforcement Agencies: 9 departed (8 per month)
FY 12 Lost to Other Law Enforcement Agencies: 13 departed (1 per month)
FY 13 Lost to Other Law Enforcement Agencies: 15 departed (1 per month)
FY 14 Lost to Other Law Enforcement Agencies: 17 departed (1 per month)
FY 15 Lost to Other Law Enforcement Agencies: 21 departed (2 per month)
FY 16 Lost to Other Law Enforcement Agencies: 19 departed (2 per month)
FY 17 Lost to Other Law Enforcement Agencies: 24 departed (2 per month)
FY 18 Lost to Other Law Enforcement Agencies: 17 departed (4 per month)

SWORN PERSONNEL

Source: Police Department.

A Lack of Comparative Information and Additional Context Makes it Difficult for Leaders and the Public to Prioritize Where Scarce Resources May Be Most Effective

The Police do important work, and of course will focus on their own challenges and interests. We found Police representatives to be proactive and data-driven in monitoring their own staffing challenges.

However, City leaders and the public are depending on departments such as HR and Personnel to provide context and advisement for challenges cited by any group, especially for an item proposing pay increases of more than 25 percent for employees within the largest department in the City.

Further, the public should also be aware of material information or context that is significant to the decision being made. For example, City Charter Section 11.1 emphasizes the importance of Police as a critical responsibility, stating that the Council “must give priority in the funding of municipal services...to provide Police protection.” However, the same part of the Charter also emphasizes context, stating that when establishing salaries, the City Council must consider “all relevant evidence, including the

needs of the residents of the City of San Diego for municipal services.”³⁷

The publicly available HR staff report accompanying the proposed pay raises cited the purpose of the item as “Recruitment and Retention of City employees.” However, it did not include key information that would help leaders and the public with their ability to prioritize how to allocate limited financial resources—specifically lacking was information, or even a reference, to how turnover, recruiting, or compensation competitiveness challenges among other groups of City employees or other labor market trends compared to Police’s challenges.

While HR did not provide key comparative context in a public forum, they stated that decision-makers such as the City Council and Mayor had been given all relevant information necessary through other avenues. They subsequently provided us with information that they said was provided to the Mayor and Council; however, again, specifically lacking was information, or even a reference to how turnover, recruiting, or compensation competitiveness challenges among other groups of City employees or other labor market trends compared to Police’s challenges.

If that information had been included, it would have shown that, although Police pay was below the median of benchmarked jurisdictions, other City of San Diego employee groups actually had much lower rates of compensation competitiveness and much higher rates of turnover.

Additional context would include that turnover rates and recruiting difficulties have been increasing across the public sector in general and that other factors, such as cancelled Police Academies, could be contributing to SDPD’s staffing challenges.

³⁷ Another Charter Section, 32.1, also emphasizes material context, stating that “The City Manager and all non-managerial officers of the City shall inform the Council of all material facts or significant developments relating to all matters under the jurisdiction of the Council....”

Additionally, Administrative Regulation 3.20 requires that, for staff reports, “Content should include all material facts and significant developments associated with the subject matter, i.e. critical information necessary for the Council to make an informed decision, including any necessary findings.”

In fact, the staffing challenges faced by Police appear to be largely exacerbated by the shortage of officers from cancelled Police Academies. According to an Independent Budget Analyst analysis from 2007:

“In FY04 and 05, as a budget reduction measure, the Police Department was directed to forgo five budgeted academy classes which could have resulted in an infusion of 150-175+ new recruits over those two fiscal years.”

Additionally, the Police Department identified three additional academies that were cancelled circa 2010-2011. This may have resulted in another 90 new recruits for the City. In total, cancelled academies may have resulted in approximately 240 fewer Police recruits for the City of San Diego. Currently, the difference between the number of budgeted positions and the current strength of SDPD is about 170 officers.

Without public discussion of these types of information, and with Councilmembers noting the importance of Police work, the item passed with a 9-0 vote, and the pay raises for Police were put into—and still are in—effect. According to HR, the fiscal impact of these raises is an increased cost to the General Fund of \$47.9 million over the two years the pay raises were phased in (FY19 and FY20), with future ongoing expenses.

HR and Personnel Did Not Track the Effect, If Any, of the Pay Raises on Officer Recruitment or Retention

No one from HR or Personnel knew how officer recruitment or retention had changed, if at all, since the raises went into effect.

We found that quits rates and turnover rates for Police did show modest decreases. After the raises were passed in December 2017, the annual quits rate for POA in calendar year 2018 through part of 2019 was 2.9 percent, down from an annualized average of 3.4 percent in 2015 – 2017.³⁸

The annual total turnover rate for POA in 2018 through part of 2019 was 7.1 percent; from 2015 – 2017 it averaged 7.5 percent.³⁹

³⁸ Given the size of Police’s workforce, that is a difference of about 9 additional officers.

³⁹ Police also provided data showing that fewer officers have been entering the Deferred Retirement Option Plan (DROP) since the pay raises went into effect. This may be a legitimate retention effect

According to Police's own internal tracking, since the raises were passed, the number of officers departing for other agencies is essentially unchanged, compared to the FY15–FY17 average. Compare Exhibits 35 and 36.

Exhibit 36

Weekly Staffing Update Email for Police, Circulated Internally and to City Executive Management, December 2019

WEEKLY STAFFING UPDATE FY20
Monday, March 16, 2020

Total Sworn Attrition

FY 17 Total Sworn Attrition: 164 departed (14 per month)
 FY 18 Total Sworn Attrition: 174 departed (14 per month)
 FY 19 Total Sworn Attrition: 158 departed (13 per month)
 FY 20 Total Sworn Attrition: 113 departed (13 per month)

Lost to Other Law Enforcement Agency

FY 18 Lost to Other Law Enforcement Agencies: 33 departed (3 per month)
 FY 19 Lost to Other Law Enforcement Agencies: 20 (2 per month)
 FY 20 Lost to Other Law Enforcement Agencies: 23 (3 per month)

Sworn Attrition Due to Retirement

Fiscal Year	Service	Disability	Total
FY 17	72	5	77
FY 18	78	4	82
FY 19	69	1	70
FY 20	39	1	40

Source: Police Department.

Evidence-Based Analysis Can Help an Organization Identify Emerging Risks as Well as Weigh Trade-Offs Among its Different Employee Groups and Stakeholders

As shown in Exhibit 34, the City faces broad-based challenges with compensation, recruitment, and retention across its many departments. The Police monitored their challenges and advocated for their interests. They also enjoy political support, given their size, visibility, and critical responsibilities. But other parties charged with balancing the City's many diverse and smaller interests either did not produce, communicate, or ask for comparative information or other additional context.

We emphasize that decisions of compensation can be legitimately prioritized for groups such as Police Officers. While Police's quits and turnover rates were lower than many other types of City employees, the Police faced legitimate challenges to expanding their staffing ability and workforce strength. Police leaders we met identified increased state mandates and reporting requirements, for example. However, we recognize that other employees face their own changing requirements and challenges as well.

from higher pay, although the quits rates, turnover rates, and comparison to other employee groups are more compelling comparative metrics that apply to a greater number of officers.

Perhaps City leaders would still have chosen to approve the same pay increases for Police instead of other employee groups with their respective challenges. But, per SHCM principles, the challenges faced by the Police and their proposed solutions should have been weighed against broader trends, and consideration should have been given to the effects on the City's broad strategic objectives and wide-ranging public services.

The City Now Faces a Projected Financial Shortfall and Has Fewer Resources Available for Employee Groups With Greater Retention Challenges and Worse Compensation Competitiveness

The primary reason given for the Police pay raises was "recruitment and retention of City employees." However, the City now has less money available to spend for many of its other employees that have much higher rates of turnover and much lower rates of compensation competitiveness.

Additionally, since the projected savings from Proposition B were anticipated to come in the form of frozen wages for employees, the pay raise for Police actually undid much of those savings.⁴⁰

The City now faces a projected \$83 million financial shortfall,⁴¹ as well as projected shortfalls into the future—even while assuming no future wage growth for employee groups. Simultaneously, the City currently faces negotiations with all six of its recognized

⁴⁰ Prior to the passage of Proposition B in 2012, the City's actuarial consultant used assumptions provided by the City to estimate the savings that the measure would generate. These assumptions included that there would be no salary increases from July 1, 2012 to June 30, 2018; that once the pay freeze expired, salaries would increase only by inflation (estimated at 3.75 percent per year); and that the turnover rate would be the same for employees in the new DC plan as in the traditional DB pension plan. The resulting actuarial analysis estimated that the measure would save approximately \$525 million (in 2012 dollars) over 30 years and that all savings would be generated by the pay freeze. However, the City's assumptions have not proven to be realistic. The pay freeze imposed by Proposition B, which was an extension of prior pay freezes that had begun several years earlier, caused employee compensation to fall far behind peer agencies. As previously described, in response, City leadership determined it was necessary to provide pay increases that were much larger than inflation for some groups—most notably, Police. While it is unknown what the outcome of current labor negotiations will be, our analysis also indicates that other employee groups are experiencing problems with recruiting, retention, satisfaction, and other issues that are likely caused in part by uncompetitive compensation. Thus, the City may find it necessary to provide significant compensation increases for some of these employee groups as well. And, as noted later in the Finding, we found that employees in the new DC plan may be as much as 3 to 4 times more likely to quit as employees in the traditional DB pension.

⁴¹ Financial shortfalls are projected in the City's Five-Year Financial Outlook. However, these are not the same as budget deficits, and the City still has some discretion over how to allocate future spending.

employee labor groups regarding employee wages and benefits; this position will require careful consideration of the costs of higher compensation against other City employee groups, programs, and obligations.⁴²

**Why SHCM is Important:
Dispatchers Example**

Adopting a more proactive and data-driven approach can help an organization balance its strategic objectives around its many different employee roles instead of simply responding to powerful groups or after a problem makes major headlines.

For example, in 2016, the City approved pay raises to Dispatchers shortly after issues with 911 call wait times gained significant media attention.

An examination of turnover data showed that Dispatcher 1s—a role spread across the Police, Fire-Rescue, and Transportation and Stormwater Departments—had one of the highest rates of turnover for any classification in the City in the years leading up to this issue. Yet it was not until after this was heavily publicized that the City reacted and approved pay raises for Dispatchers, citing recruiting and retention issues.

**Employee Satisfaction is
Another Important Metric**

We also note metrics such as quits and vacancies are important but may not tell the whole story. An employee may be profoundly unhappy that their pay was frozen for years, for example, but life circumstances may prevent them from completely quitting or separating from the organization. Although such an employee may not be counted as part of quits or vacancy calculations, their morale and/or level of effort may be affected.

This element of risk is often referred to as the level of employee engagement, with an organization's employees potentially running the gamut from actively engaged—motivated and driven—to actively disengaged—upset and unmotivated. Much of the literature on human capital management emphasizes the importance of employee engagement among the workforce in delivering high-quality service to customers—or in this case, taxpayers, residents, and visitors.

⁴² The City's Five-Year Financial Outlook describes many such programs and obligations. Available at: https://www.sandiego.gov/sites/default/files/fy21_25outlook.pdf.

*The City Has Begun
Monitoring Employee
Satisfaction*

One human capital management internal control that the City has recently put in place to monitor elements of employee engagement is through its Citywide Employee Satisfaction Survey (ESS). The ESS was offered to employees throughout the City in 2017 and again in 2019. The survey contains dozens of questions, asking employees their thoughts on topics from professional development opportunities, supervision and management, resources and communication, and more.

In general, the survey is a commendable effort and contains a wealth of information about employee perceptions. We encourage HR in particular to review the summary results for the entire City. HR has recently stated that they have reviewed results for each department. Our summarized results of the ESS 2019 and ESS 2017 surveys, broken out by departments across the City, are available in Appendix C.

In the interest of brevity, we highlight a few elements here. In the most recent ESS (2019), overall job satisfaction Citywide has gone down, from 74 percent in 2017 to 69 percent in 2019. An even bigger drop occurred in response to the prompt, "I would recommend the City of San Diego as a place to work," from 60 percent in 2017 to 49 percent in 2019.⁴³

*City Results in Context—a
Comparison to Federal
Employees*

For comparison, the most recent Federal Employee Viewpoint Survey (FEVS) has similar scores for overall job satisfaction but significantly higher scores for recommending as an employer. See **Exhibit 37**.

⁴³ In 2017, approximately 41 percent of employees responded to the Employee Satisfaction Survey; in 2019, the response rate was about 34 percent.

Exhibit 37

Comparison of City of San Diego's Employee Satisfaction Survey with Federal Employee Viewpoint Survey, 2017 and 2019

	2017		2019	
	Overall job satisfaction	Would recommend as a place to work	Overall job satisfaction	Would recommend as a place to work
City of San Diego	74%	60%	69%	49%
Federal Government	68%	66%	69%	67%

Source: OCA, based on 2017 and 2019 City of San Diego Employee Satisfaction Surveys and 2017 and 2019 Federal Employee Viewpoint Surveys.

The FEVS also included questions on employee engagement and pay satisfaction specifically, both of which the City does not include. Given the known compensation competitiveness challenges faced by the City of San Diego, we recommend including questions on these topics in future City of San Diego Employee Satisfaction Surveys. See Recommendation 4.

City Results in More Detail

Again, the story becomes more complex looking across different parts of the City. Due to the nature of the ESS structure, we could not compare results to all employee labor groups as in the exhibits above. But the survey was easily broken out by department, and again there was wide variation; see, for example, **Exhibit 38**.

Exhibit 38

Comparison of Selected Departments*—Compensation Competitiveness, Quits, Vacancies, Employee Satisfaction, and Enthusiasm in Recommending the City as a Place to Work

Department	Base Compensation Competitiveness** (2019)	Quits Rate (2018)	Vacancy Rate (2018)	Job Satisfaction (2017)	Would recommend the City (2017)	Job Satisfaction (2019)	Would recommend the City (2019)
Police	-4%	3%	11%	75%	46%	73%	50%
Fire	-14%	2%	8%	83%	40%	63%	15%
City Attorneys	-32%	13%	3%	68%	56%	76%	43%
City Overall	-	5%	13%	74%	60%	69%	49%

Notes: As detailed in previous exhibits, “Base compensation Competitiveness,” “Quits rate,” and “Vacancy rate” are analyzed by employee labor group here and throughout this report. Employee Satisfaction Scores shown are for the most corresponding department—i.e. Deputy City Attorneys and Office of the City Attorney. However, we note that not all employees in each department are also in the corresponding labor group for the departments shown here. Many are, however, and the intent of this exhibit is simply to summarize high-level information from different workforce indicators discussed so far.

* Our summarized results of the 2019 ESS and 2017 ESS, broken out by all departments across the City, are available in Appendix C.

** Figures shown are results from the City's 2019 salary survey for 5-Year employees (8-Year employees for Police). Police also received a 5 percent pay increase in January 2020 that is not reflected in the table.

Source: OCA, based on results from recent salary studies, separations data provided by Personnel, and City of San Diego Employee Satisfaction Surveys.

Thus, another SHCM takeaway appears to be that, although employees in some lines of work are reluctant to actually quit the City, less than half of respondents would recommend the City as a place to work. And, within many departments, this is substantially lower; for Fire-Rescue, the figure has fallen to 15 percent.

Low Employee Satisfaction Represents a Substantial Area of Risk for the City and its Aspirational Brand as an Employer of Choice

This represents a substantial area of risk for the City and its effectiveness at providing top-notch public services through an engaged and satisfied workforce. It also seriously undermines the City's aspirational brand as an employer-of-choice.

According to HR, departments have been asked to develop a plan to mitigate and/or improve their employee satisfaction results. That is also commendable, although the same request was made in 2017—and scores have actually decreased since then. Additionally, some issues, such as compensation competitiveness, go beyond department operational issues. Regardless, HR and City leadership should continue to actively monitor employee satisfaction scores as part of their SHCM workforce monitoring and analyses more generally.

Examples of Other Metrics

Other analyses include consideration of more specialized HCM issues. Some examples include:

- The effect of DC vs. DB retirement plan on employees' likelihood of quitting;
- The degree of internal "churnover;" and
- Trends within other subgroups.

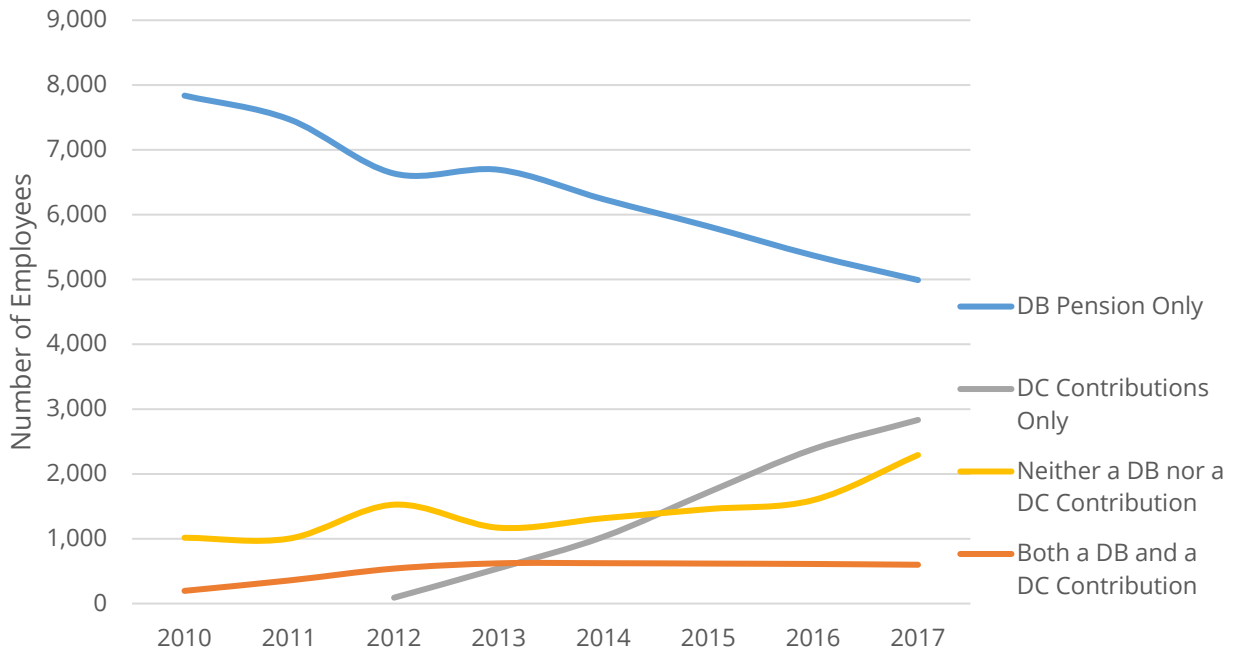
The following sections discuss these issues in more detail.

The City Does Not Know How its Move Away from Defined Benefit Pensions Affected Employees' Likelihood of Quitting or Leaving the City

Due to changes put in place by Proposition B, the share of employees with defined contribution plans instead of defined benefit plans has steadily risen to a large share of the workforce.

Exhibit 39

Retirement Plan Type by Employee, 2010–2017 (Not Including Employees with Non-Standard Hours)



Source: OCA, based on retirement data from the Risk Management Department.

As discussed in Finding 1, this change has led to unusual market positioning for the City of San Diego in its peer labor market.

Further, the 2012 actuarial analysis of Proposition B stated that:

“The same assumptions for...membership turnover...were used for members of both the current DB and proposed DC plans.”

However, when we asked in 2019, neither HR nor Personnel had ever calculated turnover rate differences, if any, for City employees with traditional pensions compared to those without. When we asked why, both departments told us they had never been asked to.

We attempted this calculation, and, while there are limitations, some of our analyses suggest that City employees without traditional pensions have a rate of quitting that may be three to

four times higher than City employees who do have traditional pensions.⁴⁴

Since turnover comes with substantial costs, and because the City's workforce is now split between employees with DB and DC plans, this is a major SHCM issue for the City. We recommend further study of this specific metric if the City maintains a substantial workforce of employees in each type of retirement plan type.

"Churnover:" Number of Positions Taken by Internal Candidates

Other recent audits conducted by our office have identified issues with lower project productivity, which appear to be—at least in part—exacerbated by issues related to compensation. For example, a recent audit on Advanced Metering Infrastructure (AMI) found that challenges with behind-schedule meter installation for the program were being exacerbated by a high number of employees transferring out of the program to seek higher wages or less physically demanding work in other parts of the City.

While some transfers and promotions may be beneficial and a way of keeping top talent, excessive "churnover"—or reliance on simply "moving employees around"—can create or exacerbate issues related to project implementation, job expertise, team morale, etc. Many stakeholders expressed curiosity about churnover patterns or optimal levels. However, neither HR nor Personnel actively monitor it, and neither could provide historical analyses. The ability to identify churnover hotspots—e.g. within particular departments or job classes—would be another way HR and Personnel could strengthen the City's SHCM capabilities.

"Millennials" or Other Emerging Trends

Similarly, in our interviews, we heard many concerns about how Millennials may or may not be different as an employee population. We calculated the turnover rate of Millennials and found that, while it is higher than the City's overall turnover rate, it is in line with the turnover rate of (relatively) young people in

⁴⁴ It is important to note that we suspect modest age differences and job types are likely partial contributors to this figure—i.e. employees with traditional defined benefit plans tend to be older and include Police; both older employees and public safety employees tend to have lower quits rates.

past decades. In other words, turnover among Millennials appears to be less driven by anything specific to their generation than by the fact that they simply happen to be young at this point in time. However, there may be other patterns the City may want to be able to identify—e.g. the proportion of quits to retirements as in **Exhibit 23**—and adapt to going forward.

Human Capital Management Responsibilities are Scattered Among Different Departments, Reporting Structures, and Information Systems and are Not Focused on Analytics

The metrics above are but a few of the many the City should track to strengthen its Strategic Human Capital Management. We found several factors that contribute to the City's largely anecdote-driven and reactive approach to Human Capital Management, including:

- Decentralized approach to workforce management; and
- Little focus on a comprehensive, analytic approach.

Decentralization Appears to Have Historically Hampered the City from Taking a More Strategic Approach to Workforce Management

Some degree of decentralization is normal, given the City's large size, and may have some advantages. For example, as an independent department, Personnel could be better positioned to resist undue pressure from various interest groups, as discussed further below. But, while decentralization may confer certain benefits in some cases, it also creates various challenges. We found that a lack of communication and strategic guidance have exacerbated these challenges and have historically hampered the City from taking a more strategic approach to workforce management.

The City's workforce information is fragmented across different departments, different reporting structures, and different information systems.

For example, many organizations may choose to concentrate their workforce management information, efforts, and responsibilities within one department. Many of the best practices and research we encountered, for example, referred to an organization's "HR function." The City, however, has both an HR Department as well as an even larger Personnel Department. Personnel's responsibilities are focused heavily on the requirements of the civil service classification system. For example, it leads recruitment efforts for employees across the City, unless such employees are considered "unclassified" and

work for a Mayoral department—in that case, HR leads the recruitment efforts.

HR also negotiates employee compensation and benefits for all employees with the City's recognized labor groups. However, if compensation levels become too uncompetitive, the labor groups can file a request for a Special Salary Adjustment (SSA), which will be considered by Personnel. When discipline issues arise, both departments get involved.

And at the beginning of this project, neither Personnel nor HR monitored employee satisfaction levels for employees outside of their department; both departments later stated a willingness to monitor this metric.

The fragmentation carries over into information systems and communication as well. For example, when we spoke with HR, they stated that getting access to turnover data has been difficult due to the "siloed" nature of the City and technical aspects of retrieving the data from SAP—the City's electronic financial and workforce monitoring system. When we asked, HR stated that they did not know the City's turnover rate and that Personnel had the data necessary for that calculation. However, when we later interviewed Personnel, they stated that HR did indeed have access to separations data and should be able to calculate turnover rates.

The example of turnover rates and other issues related to employee retention is further confounded by the fact that, when it does perform such analyses, Personnel defines turnover differently than more standard practice, which results in a lower turnover figure. See Finding 3 for more information on this issue. This approach has created confusion among different groups we spoke with and may explain some of the inability to generate consistent reports of turnover from different stakeholders.

Over the course of this audit, both HR and Personnel stated they have clarified these access and methodological issues and look forward to strengthening the City's SHCM communication and capabilities. Recommendation 7 to implement a workforce management dashboard accessible to all SHCM stakeholders is

intended to help strengthen some of these access and miscommunication issues.

There are Also Department-Level Efforts at Human Capital Management, but the City Can Improve the Efficiency and Usefulness of These Analyses

Another effect from lacking a comprehensive approach to SHCM is in the efficiency of any analyses that do take place. Several times when we asked for workforce information, HR and Personnel responded that, although they could not produce the answer, departments may be conducting their own analyses—for example, identifying reasons why potential employees turn down job offers, identifying high-turnover positions, etc.

While we do not fault departments for proactively analyzing their own trends and operationally-specific issues, relying on them to do so may lead to replicated work, inconsistent analyses, and a more narrow focus on the interests of a given department. For example, when we asked HR for the supporting analyses behind the Police Department's reporting of a staffing and turnover challenges, HR responded that the Police tracked and calculated those figures; the department then advocated for more compensation for their own officers.

Without the ability or responsibility to compare to other departments or other organizations, departmental-level analyses would likely be much less robust. Further, it would be less efficient to have analysts in the City's approximately three dozen different departments calculating turnover rates, vacancy rates, compensation issues, and satisfaction—while wondering how their results stack up to other departments across the City. Again, a workforce management dashboard accessible to all SHCM stakeholders may be particularly useful to analysts across the City.

The City already has a Human Resources Department and a Personnel Department charged with managing human capital issues that pertain to workers across the City. For example, HR is in charge of negotiating labor agreements with the City's recognized employee labor organizations. These organizations are commonly citing issues related to employee compensation, turnover, and engagement; it would be natural and prudent for HR to be versed on the data behind these issues.

Similarly, Personnel leads the City's efforts to recruit employee talent within the classified service. Personnel also processes and

maintains Citywide separations data. The department is also in charge of SHCM analyses relevant to the City's SSA process for classified workers across the City.⁴⁵ Again, they would be in a natural position to strengthen the City's SHCM capabilities.

By not charging a centralized authority with SHCM responsibilities, the City is subject to departments or employee groups simply advocating for their own interests, without experts in HR and Personnel to more objectively evaluate these issues in a Citywide context.

Existing Guidance Within the City Has Not Emphasized Data-Driven Human Capital Management

While anecdotes will always abound, and while some organizational redundancy may be inevitable, the City could also improve its coordination and emphasis on monitoring its most expensive asset—its \$1.5 billion workforce.

Several times over the course of the audit, HR and Personnel stated they had never been resourced or assigned to look into such matters—for example, neither HR nor Personnel has ever calculated turnover rate differences, if any, for City employees with traditional pensions compared to those without. When we asked why, both departments told us they had never been asked to.

Key Performance Indicators for HR and Personnel Communicate Little About Trends or Characteristics Within the City's Workforce

Key Performance Indicators (KPIs) for HR and Personnel do not emphasize SHCM approaches or communicate much about trends within the City's workforce. See **Exhibits 40 and 41**.

HR does have an important role of ensuring training compliance, but with an increasing number of employees quitting, growing vacancies, and concern among operational impacts from these issues on services across the City, HR should also consider including a KPI that may help the City better monitor important trends within its workforce. Personnel does currently include some important metrics, such as hiring timeliness, but given the issues raised in this report, Personnel should also consider including a KPI that may help the City better monitor its workforce.

⁴⁵ This process is discussed in more detail in Finding 3.

Exhibit 40

2019 Key Performance Indicators – Human Resources

Performance Indicator	FY2017 Target	FY2017 Actual	FY2018 Target	FY2018 Actual	FY2019 Target
Increase volunteer service hours by 5% each fiscal year	100%	100%	100%	100%	100%
Percentage of City staff in compliance with mandatory and required trainings within established timeframes	100%	100%	100%	100%	100%
Percentage of Labor-Management Committee meetings scheduled and attended per fiscal year	100%	100%	100%	100%	100%
Percentage of Public Record Act requests responded to within the statutory timeframe ¹	N/A	N/A	100%	96%	N/A

1. The Public Records Administrative Program will transfer to the Communications department in Fiscal Year 2019.

Source: City of San Diego FY19 Adopted Budget.

Exhibit 41

2019 Key Performance Indicators – Personnel Department

Performance Indicator	FY2017 Target	FY2017 Actual	FY2018 Target	FY2018 Actual	FY2019 Target
Number of Appointing Authority Interview Trainings offered (AAIT) ¹	15	25	15	19	15
Number of Employee Performance Evaluation Trainings offered (EPRP)	15	13	15	14	15
Number of days classification and compensation studies conducted and completed by Classification Section ²	19	19	23	19	19
Number of days to issue certification to hiring departments (without recruitment)	12	11	12	11	11
Number of days to issue certification to hiring departments when recruitment is required	59	58	59	57	57

1. The Personnel Department exceeded the Fiscal Year 2018 target by accommodating City departments' special requests for additional training courses.

2. Based on the FY 2018 Actual, the FY 2019 Target was revised from 22 to 19.

Source: City of San Diego FY19 Adopted Budget.

City Efforts at SHCM

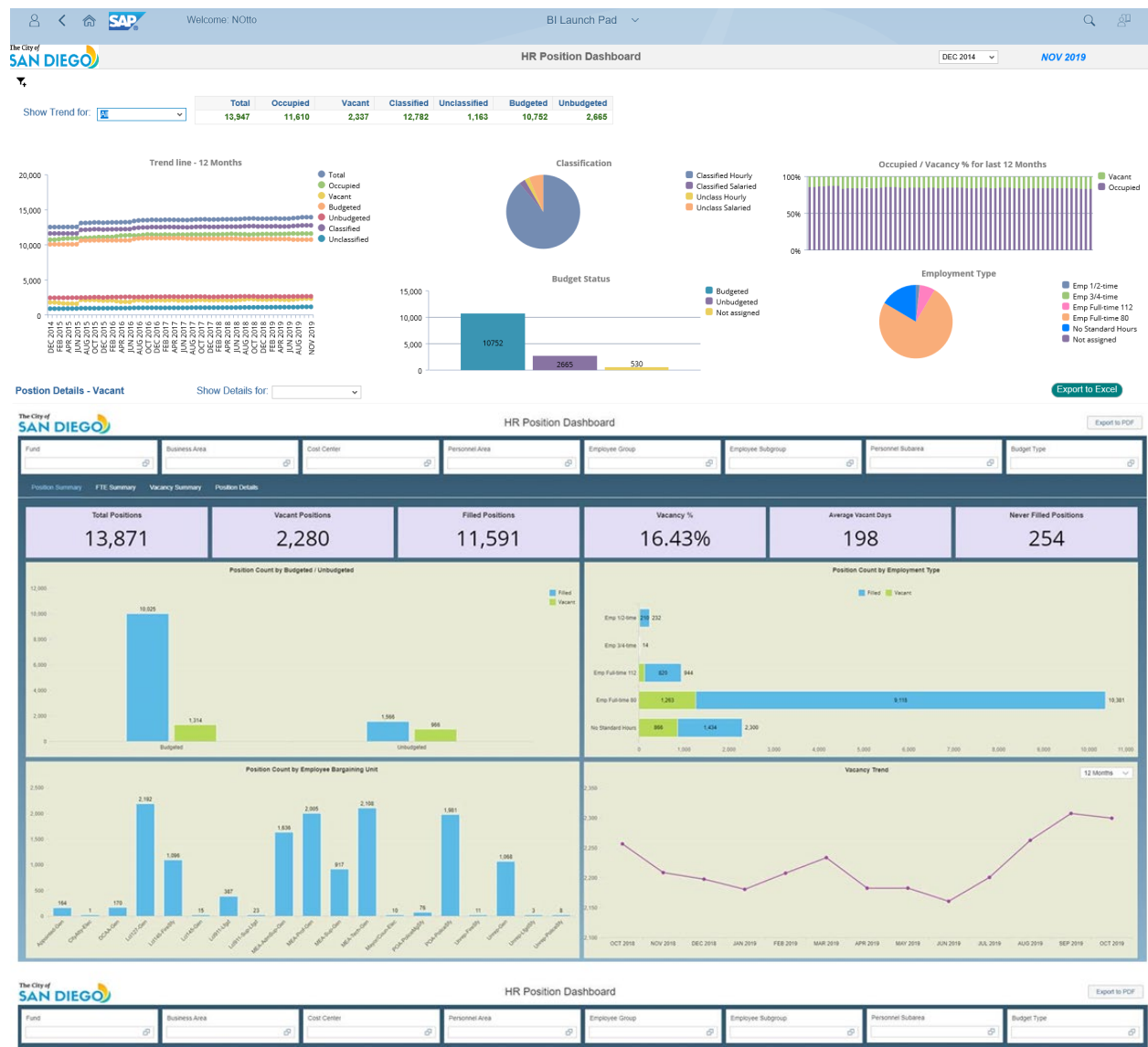
Despite some of the issues discussed above, the City has taken steps to monitor some of these core metrics. For example, it has now conducted two biennial Employee Satisfaction Surveys. It is analyzing its internal pay equity and developed plans to monitor pay trends in the future. And it has much of the information that

it needs to take a more evidence-based approach to managing its most important and most expensive asset—its workforce.

For example, much of the City's workforce information has been digitized, and the City has built an interactive HR Position Dashboard that displays important workforce information, including employee counts and vacancies. Analysts can filter for particular departments and/or historical periods of interest. See Exhibit 42.

Exhibit 42

Screenshot of the City's Existing HR Position Dashboard, November 2019.



Source: Business Objects, HR Position Dashboard.

We did not test the data reliability of this tool. While several stakeholders expressed concern to us about some of the reliability of the data within the dashboard, on the whole, the development of such a tool is a significant accomplishment towards SHCM and deserves commendation. We recommend that the dashboard—or a similar version⁴⁶—continue to be improved and prioritized.

Specifically, the departments of HR, Personnel, DoIT, Finance, and Performance and Analytics should:

- Convene a working group to solicit concerns about reliability of the workforce data within the dashboard and issue a resulting action plan to address concerns raised.
- Expand the dashboard's historically available data (when auditors accessed the dashboard on multiple occasions in 2019, historical data was capped at about one year; later, accessible data included only the period December 2014 through February 2016).
- Display additional key workforce metrics, such as those listed in **Exhibit 21**. Metrics on employee retention, including total turnover and quits rates, should be a top priority.
- Ensure the dashboard is widely accessible to stakeholders, such as analysts within each of their own departments, the Office of the City Auditor, the Office of the Independent Budget Analyst, and interested individual operational departments that request access and have a reasonable business purpose.

HR and Personnel Should Collaborate on Workforce Monitoring

Effective efforts at SHCM will involve both HR and Personnel. HR is a department that reports to the Mayor; Personnel is an independent department that reports to the Civil Service Commission. We identify decentralization and communication challenges as contributing factors to many of the issues raised in this report. However, with additional strategic guidance, the City can utilize the structural advantages of each department to help inform its overall SHCM and mitigate the disadvantages of the

⁴⁶ The City has also built a similar dashboard focused on vacancies information.

other. One advantage of HR, for example, is its ability and incentive to respond to the prerogatives of City Executive Management. If an administration articulates several major policy priorities, HR can respond with relevant information about the workforce charged with carrying out those objectives. Personnel can utilize its independent structure to resist undue pressure and to balance the City's many interests.

According to HR, the department has undergone reorganizational efforts and is trying to emphasize a more strategic, analytical, and proactive approach. Prior to recent changes, and according to our interviews with HR, primary focuses of the department were:

- Labor negotiations and meet and confer issues; and
- Employee relations, such as fact findings and grievances/appeals.

These are complex issues, and, according to HR, the meet and confer issues in particular take up a lot of staff time.

With new management, HR has been reorganized into two primary teams:

- Labor issues; and
- Strategic HR management.

Personnel also has indicated a willingness to work on SHCM issues.

The City of Chula Vista produces a workforce report with many of the key workforce information points that we have discussed. According to their HR Department, the report is produced largely by a single analyst every other year. See **Exhibit 43**.

Exhibit 43

2017 Biennial Workforce Report from the City of Chula Vista



SUMMARY OF FINDINGS

Total Workforce

The City's total workforce as of December 31, 2017 was 915.

The average headcount was 915, the highest since 2012 and reflected 1.6% increase from 2016's average headcount of 900.

Demographics

Gender

Males continue to dominate the workforce and this has remained unchanged in the last 5 years. The number of males surpassed the number of females by more than 100%.

Age

The workforce's age composition is heavily clustered in Generation X (36-50 years old). 51% of workforce are in this age group.

The average age is 44.5; median 45 years. The youngest employee is 21 years old; the most senior is 74 years old.

Race

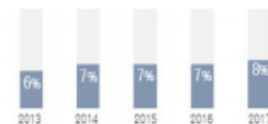
Length of Service

The average and median longevity is 12 years unchanged in the last 5 years. 48% of employees had 11-20 years of service. The longest-tenured employee has 41 years of service.



Employee Turnover

Employee turnover rate is 8% based on 70 total separations.



Retirement (service and disability) was the top reason for separations. Since 2013, 177 retirements have been reported. Using 2013 as baseline year, the average number of retirements is 35.

Excluding retirements, there were more voluntary separations than involuntary. Voluntary separations capture the "true" turnover rate as these separations depict reasons (better future, relocation, hours/work undesirable) that the organization may potentially avoid or control. True turnover rate caused by voluntary departures in 2017 was 2%.

Source: Chula Vista Human Resources Department; available at: <https://www.chulavistaca.gov/home/showdocument?id=18466>.

Not all human capital metrics will be feasible, and there will always be challenges related to Strategic Human Capital Management. But a more data-driven approach can help an organization be more strategic about its most important—and expensive—asset.

Again, SHRM:

If current HR practices don't change, the work of HR professionals could end up being largely administrative. They could merely manage IT-based HR systems and vendors who do most of the HR administrative work. On the other hand, HR professionals could become drivers of organizational effectiveness and business strategy.

More than ever, the effectiveness of an organization depends on its ability to address talent management issues such as knowledge management, change management and capability building. The key question is whether HR professionals will rise to the occasion and address them.

Such an approach is in keeping with the City's Strategic Plan, which identifies both "customers and employees as partners," recognizes "that an engaged City workforce is the key to quality customer service," and strives to "measure results and seek improvement in everything we do."

Therefore, we make several recommendations to help the City achieve these Strategic Plan goals; ensure that the City is able to maintain a high-performing workforce that provides high-quality public services; and monitor and communicate trends across its most expensive and valuable asset.

First, given its limited resources, the City should develop better monitoring and communication capabilities regarding characteristics and trends of its \$1.5 billion workforce, identifying key areas in which to focus its efforts at attracting and retaining talent. Specifically:

Recommendation 7 HR and Personnel should jointly present an annual, publicly available Workforce Report to the City Council and Mayoral administration, updating City leadership by identifying key City

positions facing challenges related to recruitment, retention, employee satisfaction and other metrics.

- a) The Workforce Report should include fundamental Human Capital Management (HCM) metrics on turnover rates, quits rates, vacancy rates, employee satisfaction, and others and should include benchmarking/comparative information, such as data from the U.S. Bureau of Labor Statistics, other large cities, the Society for Human Resource Management, etc.
- b) Among other content, the Workforce Report should identify:
 - i. A reasonable number—e.g. 10—of the job types for full-time employees, regardless of classification status, with:
 - The highest rates of turnover and/or voluntary separations;
 - The highest rates of vacancies; and
 - A metric assessing employee recruitment—for example, the number of “qualified” vs. “highly qualified” applicants.
 - If they are not included among the job types above, the Workforce Report should also include the results for Police officers and Firefighters as well.
 - ii. An assessment of the differences, if any, between employees with Defined Contribution retirement plans and the rest of the City workforce, with respect to recruitment and retention patterns and/or other metrics (e.g. satisfaction or engagement).
- c) The Workforce Report should identify key elements of concern within the workforce, such as recruitment, development, satisfaction/engagement, and retention problems, an action plan to address these issues, and a timeline for completion.
- d) The Workforce Report should be required by a strong mechanism, such as a Council Policy or Municipal Code amendment. (Priority 1)

Recommendation 8 In order to aid in the production of the workforce report—as well as ongoing monitoring during the intervening periods—the Human Resources, Personnel, Information Technology, Finance, and Performance and Analytics Departments should strengthen an interactive dashboard with monitoring and reporting capabilities for core Strategic Human Capital Management metrics. Specifically:

- a) Convene a working group to solicit concerns about reliability of the workforce data within the dashboard and issue a resulting action plan to address concerns raised.
- b) Expand the dashboard's historically available data to the maximum extent possible, not less than a period of five years.
- c) Display additional key workforce metrics, such as those listed in **Exhibit 22**. A metric on employee retention, including but not limited to turnover and quits rates, should be a top priority.
- d) Ensure the dashboard is widely accessible to stakeholders, such as analysts within each of their own departments, the Office of the City Auditor, the Office of the Independent Budget Analyst, and interested individual operational departments that request access and have a reasonable business purpose.
- e) The dashboard should have “break-out” and export capabilities for at least the following dimensions:
 - By department;
 - By job classification;
 - By labor group; and
 - By retirement plan type. (Priority 1)

Recommendation 9 The Human Resources and Personnel Departments should develop and monitor target goals or metrics for key aspects of the City's workforce, such as target turnover rates, quits rates, vacancy rates, etc. These should be formally documented, for example, by incorporation into the City's Total Compensation

Strategy (from Recommendation 1) and annual Workforce Report (from Recommendation 7). (Priority 2)

Recommendation 10 The Human Resources Department should ensure the labor agreements currently being negotiated (in Spring 2020) do not preclude the possibility of re-negotiation once the City has developed more robust workforce analytics, which may identify particular areas of concern that need to be immediately addressed. (Priority 2)

Finding 3: The Special Salary Adjustment Process is a Control for Addressing Compensation Competitiveness, Recruitment, and Retention Issues; However, its Methodology Leads to Undercounting of Turnover, and the Process for Identifying Positions at Risk is Inefficient and Strategically Erratic

Finding Summary

While Findings 1 and 2 describe risks and limitations related to the City's current Strategic Human Capital Management (SHCM), one control the City has to mitigate issues of recruitment and retention is the Special Salary Adjustment (SSA) process. The process begins when a City department submits an SSA request to the Personnel Department for review. Personnel then performs analysis and recommends a determination to the Civil Service Commission about whether the SSA should be approved. The SSA process is a strategically-intentioned feedback mechanism, but the City is increasingly relying on it to address its wide-ranging compensation competitiveness issues. Additionally, we found that the SSA methodology used by Personnel undercounts true turnover because many separating employees are excluded and because it does not accurately account for average workforce size.

As a result, Personnel's calculated turnover rates cannot be used for benchmarking with other organizations. In addition, stakeholders, such as HR and employee labor groups, stated an inability to replicate Personnel's calculated turnover rates. Further, the City may be under-identifying or mis-identifying job areas facing recruitment and retention challenges. Personnel can help the City strengthen its SHCM capabilities by using a clear methodology that is consistent with standard definitions used by the U.S. Bureau of Labor Statistics. Including such an approach would ensure that all parties have a shared set of facts to make difficult decisions about directing limited resources for City employees and public services.

Additionally, neither Personnel nor HR could provide us with any historical analysis regarding recruitment trends for different types of positions in the City. Through data provided by Personnel, we found a wide range in the number of approved applicants per vacancy, with most classifications we reviewed trending downward.

Aside from addressing the analytical issues identified above, relying on departments and employee labor groups to identify job classes with issues and apply for SSAs is inefficient and likely inadequate given the City's broad compensation competitiveness issues. For example, under the current process of waiting for departments and labor groups to identify high-risk areas, we found that only 4 of the 20 career-type classified positions with the highest rates of turnover in recent years had an SSA submitted, and only 2 of those were approved. Both Personnel and HR can help the City strengthen its SHCM capabilities by proactively identifying high-risk areas within the City's workforce.

We make several recommendations, including that Personnel reform its SSA methodology to ensure accurate calculations of turnover and quits rates that conform to standard methodology employed by the U.S. Bureau of Labor Statistics; develop a metric to identify recruitment trends over time for different types of positions in the City; and assign Personnel and HR responsibility for proactively identifying classifications throughout the City with recruitment or retention challenges.

Adopting a more proactive and strategic approach can help the City accurately identify and adapt to changes in its workforce, which can help the City make difficult decisions about directing limited resources to ensure quality public services for taxpayers, residents, and visitors.

SSAs are a Control to Address Recruitment and Retention Issues in the City

One control the City has to mitigate issues of recruitment and retention is the SSA process. The process is contemplated and guided by Section 130 of the City Charter, which reads, in part:

It shall be the duty of the Civil Service Commission to prepare and furnish to the Council, prior to the adoption of [the City's annual salary] ordinance, a report identifying classifications of employees in the

Classified Service which merit special salary consideration because of recruitment or retention problems, changes in duties or responsibilities, or other special factors the Commission deems appropriate.

According to Personnel, if a department or employee labor organization thinks there is a recruitment or retention problem within any of its classified positions, it can accumulate evidence substantiating the issue and submit an SSA request for consideration by Personnel and the Civil Service Commission.

Personnel Analysts will then investigate the request, for example, by looking at recruiting history and/or calculating the turnover rate for the positions in question. According to Personnel, they are bound by Civil Service rules to ensure that they are providing at least three candidates rated as “qualified” for a given job opening. They also calculate turnover for the position(s) in question and compare that to the Citywide average turnover rate.

If Personnel agrees that there is an issue, they recommend adjusting compensation for the affected job class. The Civil Service Commission, Mayor’s Office, and City Council weigh in and ultimately decide if a salary adjustment is granted.

The City is Increasingly Relying on the SSA Process

The SSA process is a strategically-intentioned feedback mechanism, but the City is increasingly relying on it to address its wide-ranging compensation competitiveness issues. According to Personnel, the SSA process is not intended to address broad-based compensation competitiveness issues; rather, it is intended as a mechanism for troubleshooting job areas with particular recruitment or retention problems. Personnel and City Executive Management stated that, after Proposition B was approved by voters in 2012, there was an agreement between the City and its employee labor organizations not to use the SSA process until FY17. Since pay freezes had been in effect for multiple years, once this agreement expired, requests for SSAs became increasingly common. See **Exhibit 44**.

During the audit, we requested all SSA applications from the period FY16–FY18, which was the most recent full-year period for

which data was available at the time. In that time, 39 SSAs were requested for job classes across the City, including Accountants, Biologists, Paralegals, Inspectors, Technicians, and many more. Of these 39, we found that about half were approved for an SSA of some kind, and about half were denied by Personnel or the Civil Service Commission. The magnitude of the SSAs ranged from 2 to 20 percent of an employee classification's base salary. Personnel also provided updated figures for FY19, which appear in the last row of the table in **Exhibit 44**.

Exhibit 44

Number of Special Salary Adjustment (SSA) Applications and Approvals by Year

Year	Number of SSA Applications	Number of SSAs Approved
FY13 through FY16	0	-
FY17	1	1
FY18	38	16
FY19	19	7

Source: OCA, based on data provided by the Personnel Department.

Personnel Should Improve Their Records Retention for SSA Decisions

We asked to see the analysis or documentation supporting several recent SSA requests, including an adjustment for Personnel Analysts that had been approved. Personnel provided the top-line summary reports that were presented to the Civil Service Commission to inform its decisions. However, as discussed further below, we found that these reports generally lack key information that would be helpful for decisionmakers when analyzing SSA requests. For example, the reports may state that "the turnover rate for the classification being studied is higher than the City average" but not provide methodologies or actual calculated rates.⁴⁷ See **Exhibit 46**. We then requested the

⁴⁷ The summary information presented to the Civil Service Commission for Personnel Analysts actually did not even include a turnover rate. We used raw separations data provided by Personnel as part of the audit and calculated a relatively high turnover rate (14.0 percent annually) and quits rate (7.4 percent annually) among Personnel Analysts at the time in question. Thus, the particular SSA granted to Personnel Analysts appears legitimate, and we defer to the decision made by the Civil Service Commission. However, the lack of presented information, such as a turnover and quits rates; the absence of recruiting information; the use of counts instead of percentages; the lack of comparative retention figures to any other groups; the inability to benchmark figures presented

analyses underlying the top-line summary reports, but Personnel said they do not maintain the supporting analyses due to restrictions on available physical storage space and a lack of operational necessity.

Personnel stated this was a longstanding practice. According to Personnel, they have consulted with the City Attorney's Office, and the practice does not violate any laws or City record retention policies.

Even if this practice does not violate the minimum standards of state law or the City's Master Records Schedule, we recommend that Personnel retain this information—perhaps by scanning it or storing it digitally—to be able to better substantiate the analysis supporting these important compensation decisions.

Recommendation 11 The Personnel Department should ensure that the summary analyses behind Special Salary Adjustment (SSA) requests are retained for a period of at least several years to substantiate decisions regarding SSAs. (Priority 2)

The SSA Methodology Undercounts True Turnover Because Many Separating Employees are Excluded

While Personnel was not able to provide the primary supporting analysis for any SSAs, they did provide several summary results and described their methodology in interviews. Based on our conversations and the information provided, we found several issues with Personnel's methodology that result in undercounting the true rate of employee turnover.

According to Personnel, a turnover rate is calculated by dividing the number of employees who left the City and found similar work of equal or higher pay. Personnel was not able to provide any written guidance outlining how "similar work" was defined or a documented policy for how this process works. But based on interviews in which they described the process, we found this methodology excludes employees who left the City for reasons like going back to school, dropping out of the workforce for family care, or switching careers.

within or outside of the City; and the reliance on a Department Director to apply for the SSA all underscore the issues presented throughout this report.

Typical turnover rate calculation looks at all reasons employees leave. For example, the U.S. Bureau of Labor Statistics (BLS) defines an organization's turnover rate as:

$$\text{BLS turnover rate} = \frac{\text{The number of employees leaving an organization}}{\text{The average size of the organization's workforce over the period in question}}$$

If Personnel Continues Focusing on Separations for Higher Pay, That Should Be Used as a Supplemental Analysis to True Turnover or Quits Rate Calculations and Also Follow the Methodology Prescribed by the U.S. Bureau of Labor Statistics

When specifically evaluating the need for a salary adjustment, it may make sense to exclude some types of separations, such as retirements, deaths, etc. Therefore, an organization like the City may want to use another metric, such as the quits rate, which we use in Finding 2. Importantly, however, quits rate is also defined by BLS and includes all employees who separate voluntarily (other than retirements). It would not exclude employees going back to school, dropping out of the workforce for family care, or switching careers. An organization's quits rate, as defined by BLS, is shown below.

$$\text{BLS quits rate} = \frac{\text{The number of employees voluntarily leaving an organization (other than retirements)}}{\text{The average size of the organization's workforce over the period in question}}$$

Exhibit 45a illustrates how Personnel's calculations are lower than conventional calculations. In this example, a job class with an average of 100 employees experienced the following changes during one year:

- 8 employees leave to take a similar job elsewhere;
- 6 take a different job elsewhere or go back to school;
- 5 retire;
- 3 drop out of the workforce for personal or family reasons, and;
- 2 are discharged.

However, Personnel's method only factors in the 8 employees who left to take a similar job elsewhere, resulting in a significantly lower reported rate of turnover, as shown in **Exhibit 45a**.

Exhibit 45a

How Personnel's Turnover Calculations Are Lower Than Those Using More Conventional Methods

$$\text{BLS turnover rate for Group X} = \frac{(8 + 6 + 5 + 3 + 2)}{100} = 24\%$$

$$\text{BLS quits rate for Group X} = \frac{(8 + 6 + 3)}{100} = 17\%$$

$$\text{Personnel's turnover rate for Group X} = \frac{8}{100} = 8\%$$

Source: OCA, based on interviews with Personnel and review of BLS methodology.

City Charter Section 130 Governs the SSA Process but Does Not Prevent Personnel from Strengthening Their Calculations or Including More Conventional Comparisons

When we asked Personnel why the current methodology only includes employees who left the City and found similar work of equal or higher pay, they responded that they follow City Charter Section 130 and that this is the way it has traditionally been done before. However, we found that City Charter Section 130 is not prescriptive about the turnover methodology. Personnel also stated that they believed this methodology is appropriate in pay consideration questions, since it focuses on when employees specifically identify leaving the City for similar work with equal or higher pay.

But there are several reasons why an organization would not want to exclude groups of workers who do not specifically identify that as their reason for leaving. For example, according to Harvard Business Review:

If a large proportion of quitters return to school to pursue graduate degrees, for example, there may be an opportunity for the company to improve retention by offering discounted or free education. If several employees leave to become stay-at-home parents, perhaps more expansive work-family programs would provide employees with healthier work-life balance. If there is a trend of employees leaving to work for a particular competitor, then it is certainly worth looking into that firm's culture, development programs, compensation, and benefits

to determine why your organization is losing talent to a rival.⁴⁸

Potential Equity Impact of Excluding Other Groups of Separating Employees

The methodology currently employed by Personnel likely has additional impacts. For example, there is likely an equity impact where turnover among females is being particularly undercounted. Labor market research shows that females in general are more likely to drop out of the workforce entirely—for example, to attend to child or elderly care responsibilities.

In such a scenario, these employees would not be taking a similar job of equal or higher pay. Therefore, their exit from the organization would not be counted under Personnel's current methodology. Consequently, classifications with more females would be less likely to receive a recommendation for SSA approval.

The Current Methodology Has Led to Confusion Among Different Stakeholders and Difficulty Benchmarking

The City may be interested in alternative metrics to turnover rates or quits rates. However, excluding many separating employees while characterizing the resulting, more narrow calculation as the turnover rate (or quits rate) is inaccurate and creates confusion with other stakeholders.

For example, HR expressed concern to us about Personnel's methodology and that it led to results that were different than theirs and lower than they expected. Since HR is the entity primarily in charge of representing the City during negotiations with the City's six recognized labor groups, it is important for them to have clarity on true rates of turnover, quitting, etc. within the City's workforce.

For their part, labor groups we spoke to also argued that turnover was being calculated unfairly. In an SSA request for Park Designers, MEA stated a turnover rate of over 27 percent, while Personnel calculated a turnover rate of less than 5 percent.

A clear methodology that is consistent with standard definitions utilized by the U.S. Bureau of Labor Statistics would ensure that all parties have a shared set of facts to make difficult decisions

⁴⁸ Harvard Business Review. "Do You Really Know Why Employees Leave Your Company?" Anthony C. Klotz and Mark C. Bolino. July 31, 2019. Available at: <https://hbr.org/2019/07/do-you-really-know-why-employees-leave-your-company>.

about directing limited resources for City employees and public services.

An Additional, Smaller Issue with Personnel's Methodology Further Undermines the Accuracy of Turnover Calculations

There is another technical issue with the current SSA calculation methodology—Personnel stated that, in addition to excluding separating employees who don't cite "other job", they also "add back" the employees who separated when estimating workforce size. See **Exhibit 45b**.

Exhibit 45b

Secondary Issue – How Personnel's Turnover Calculations Are Lower Than Those Using More Conventional Methods

$$\text{Personnel's turnover rate for Group X} = \frac{8 \text{ separating employees}}{100 \text{ original employees} + \text{the 8 separating employees}} = 7\%$$

Source: OCA, based on interviews with Personnel and review of BLS methodology.

The skewing effect of this second issue increases as the turnover or quits rate for a particular group becomes higher. In the example above, this secondary methodological issue lowers the turnover rate from 8 percent (8/100) to 7 percent (8/108). But if 20 employees had left, the change would be down from 20 percent (20/100) to 16.7 percent (20/120). Since the City should particularly be monitoring its positions with the highest rates of turnover or quits, this issue can also be solved simply by using the BLS methodology, which is to divide the separating employees by the average workforce size over the period in question.

Recommendation 12

The Personnel Department (Personnel) should reform the way it calculates the rationale for whether Special Salary Adjustments (SSAs) are needed to conform with standard methodology employed by the U.S. Bureau of Labor Statistics. Personnel's methodology should include all employees who separated from City employment and use a more accurate measure of the average workforce size for the period in question when calculating turnover rates and quits rates.

- a) If Personnel continues to perform their current methodology as well, the calculation should be referred to as something other than a "turnover" rate.

The more standard definition of turnover and/or quits—as defined by U.S. Bureau of Labor Statistics—should accompany SSA analyses brought before the Civil Service Commission and other forums. (Priority 1)

Retention and Recruitment Information Should Be Presented as Rates

Recruitment and retention information should also include rates or percentages. SSAs we reviewed often presented information simply in terms of counts. For example, see **Exhibit 46** below.

Exhibit 46

Example of Personnel's Turnover Analyses to the Civil Service Commission Relying on Counts, with No Mention of Rates or Percentages



Turnover.	<p>A review of turnover data from the last five years does not support a turnover problem for the Water Systems Technician III, Water Systems Technician II, and Water Systems Technician I classifications. The separations from these classifications include 15 retirements, seven discharges, six resignations, and 17 separations for outside employment. Of the 17 separations for outside employment, two were for positions not comparable to Water Systems Technician. Although there have been 15 separations, <u>these separations do not exceed the City's average turnover rate and do not constitute a turnover problem.</u></p>
-----------	--

A review of turnover and recruitment data shows that there is no turnover or recruiting problems for the Water Systems Technician classification series. Therefore, staff recommends denial of this request.

Source: Personnel Department, FY20.

Presenting information as rates instead of just counts conforms to BLS methodology and allows for potential issues to be identified among groups with smaller numbers of employees. As **Exhibits 24 and 25** in Finding 2 demonstrate, it also helps to compare objectively amongst groups with different numbers of employees.

Personnel stated that they support this approach and that recent analyses have included rates.

Recommendation 13

Special Salary Adjustments should consistently present and include recruitment and retention information to the Civil

Service Commission and other stakeholders in terms of rates, in addition to total number of employees. (Priority 2)

**Personnel and HR Do Not
Comprehensively Track or
Analyze Hiring Trends**

The issues above relate to turnover and retention. The SSA process does also consider recruitment issues.

According to managers across the City, the City's recruiting effectiveness could also be improved, with only 51 percent saying the City was effective or very effective in this area. We also heard concerns from multiple stakeholders that the problem had worsened over time.

When we asked Personnel what sort of information the City may have to assess these claims, they were neither aware of—nor had they ever performed—an assessment of whether this had changed over time. Personnel stated that one control the City has in place on a case-by-case basis is a target to provide three qualified applicants for any given job opening. However, neither Personnel nor HR could provide us with information on recruitment trends or analytical comparisons in recent years for different types of positions in the City—for example, whether the share of applicants rated “qualified” vs. “highly qualified” had changed or for which positions that was the case.⁴⁹ Personnel was only able to speculate on which jobs may be facing particular challenges or how persistent some of the City's challenges may or may not be.

*Approved Applicants per
Vacancy*

We encountered some research, which suggests that, beyond the City, average applicants per public sector job opening may be decreasing as a general trend over the last several years.⁵⁰ With no historical analyses or other suggested metrics from Personnel or HR, we requested the number of approved applicants per vacancy for 11 different types of jobs across the City. Upon request, Personnel created a document for this project listing approved applicants per vacancy for various positions over time.

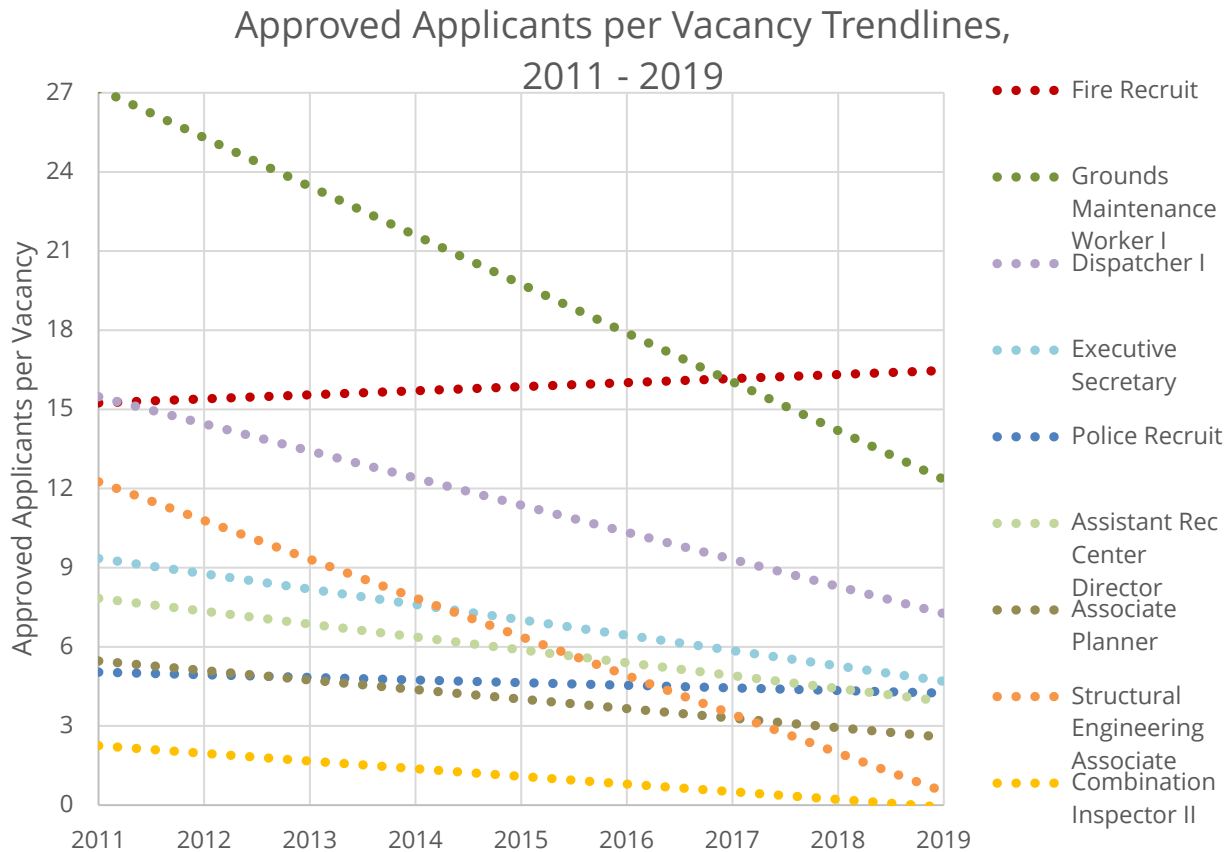
⁴⁹ Interviewing panels may assess candidate qualifications with rankings, such as “Highly Qualified,” “Qualified,” and “Minimally Qualified,” but do not comprehensively track records.

⁵⁰ 10 Key Takeaways from the Latest Public Sector Hiring Trends Report. NEOGOV in partnership with the International City/County Management Association (ICMA). November 2019. Available at: <https://icma.org/events/free-webinar-10-key-takeaways-latest-public-sector-hiring-trends-report>.

Based on this data provided by Personnel, we found a wide range in the number of approved applicants per vacancy, with most classifications we reviewed trending downward. Two positions—Deputy City Attorney and Program Manager—could not be assessed, as Personnel does not track data for unclassified positions.⁵¹

Exhibit 47

We Found a Wide Range in the Number of Approved Applicants per Vacancy, with a Sample of Classifications Mostly Trending Downward



Source: OCA, based on recruitment data provided by Personnel.

We recommend that Personnel develop a metric that would allow it to identify recruitment trends over time for different types of positions in the City, including both quantity and quality of applicants. Such a metric should also be reportable via the SHCM dashboard in Recommendation 8, presented as part of the annual Workforce Report discussed in Recommendation 7,

⁵¹ This is another example of decentralization and fragmentation impacting the City's SHCM.

and could be considered as a Key Performance Indicator, as discussed in Recommendation 9.

Aside from Addressing the Analytical Issues Identified Above, Waiting on Operational Departments and Unions to Identify SSAs is Inefficient, Non-Strategic, and Likely Inadequate Given the City's Broad Compensation Competitiveness Issues

Additionally, by leaving it up to operational departments or unions to submit an SSA, the current process is also inefficient and less aligned with the City's overall strategic objectives.

For example, under the current methodology of waiting for operational departments and labor groups, we found that only 4 of the 20 career-type classified positions with the highest rates of turnover in recent years had an SSA submitted, and only 2 of those were approved.

As discussed in Finding 2, the approximately three dozen City operational departments and/or labor groups do not have the same degree of access to relevant information that would justify the need for an SSA.

For example, in FY20, Local 127 submitted an SSA request for Water Systems Technicians (WSTs). To maintain salary differentials, Local 127 also requested that, if the SSA for Technicians was approved, salaries be adjusted for Water Systems District Managers, WST Supervisors, and WST IVs.

But Personnel did not look into those classifications because they are represented by a different union. As stated in Personnel's report to the Civil Service Commission:

It should be noted that the Water Systems District Manager, Water Systems Technician Supervisor, and Water Systems Technician IV classifications are represented by the Municipal Employees Association (MEA). Staff did not receive a request from MEA to study these classifications and only studied those classifications represented by Local 127.

Personnel stated that they already do proactively identify classifications with recruitment and retention issues; however, the only example they cited was one SSA for HVAC technicians from several years ago.

It is far more onerous for three dozen departments and/or multiple labor groups to simultaneously and individually compile compelling, multi-year, and evidence-based cases for an SSA for

their particular employees, especially when Personnel then must review them anyway.

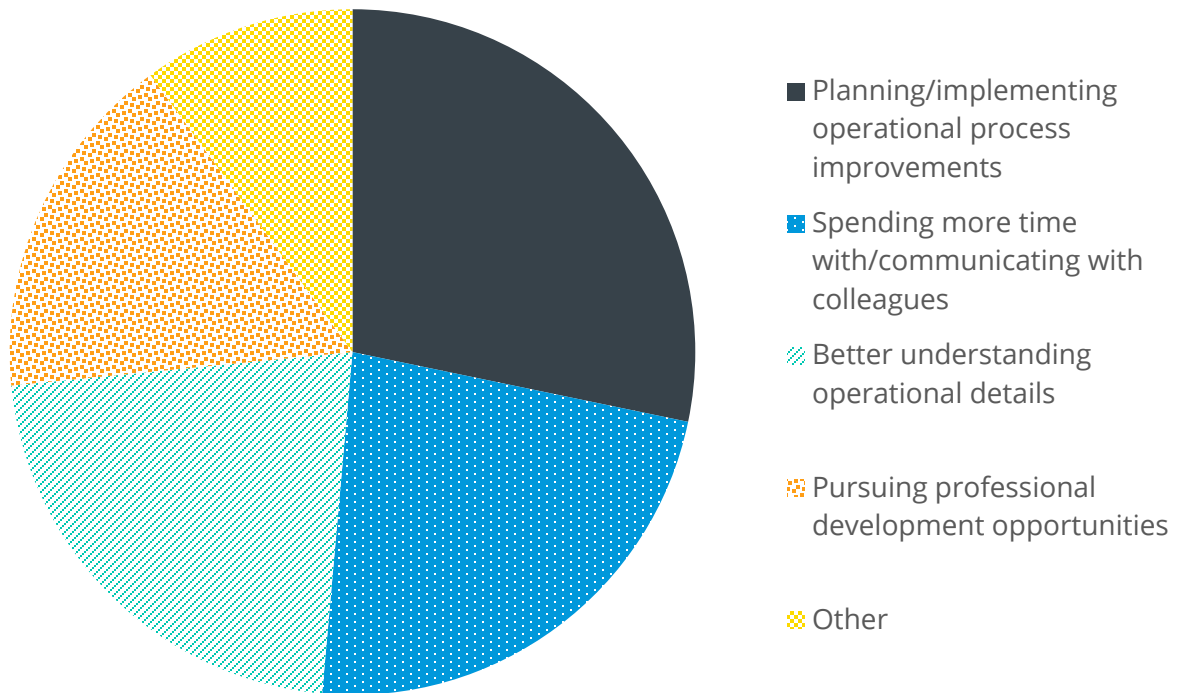
Instead, proactive analysis by HR and Personnel to identify job types experiencing recruiting and retention problems would ensure that analyses are high-quality, timely, and methodologically consistent.

This would also free up time for operational departments to focus on service delivery and other operational issues—where City managers expressed a desire to invest more time if given the opportunity. See **Exhibit 48**.

Exhibit 48

Personnel and HR Proactively Identifying Job Classes with Recruitment and Retention Challenges Could Allow Operational Departments to Focus More on Their Core Departmental Missions and Services

"If I had more time in my day as a manager, I would spend it on..."



Source: OCA Citywide Management Survey.

Personnel and HR are Also Positioned to

Personnel and HR also have a higher vantage point of the City's myriad needs, not just the needs of a particular department or

**Consider the Broad Needs
of the City's Wide-Ranging
Public Services**

union. Both departments are in a better position to proactively identify critical SHCM problem areas, and pre-emptively or nimbly adjust compensation if necessary. They should be expected to identify and help prepare SSAs for high-risk job areas. This effort could be included as part of the annual Workforce Report from Recommendation 7.

Adopting a more proactive and data-driven approach, and assigning responsibility to an entity with a broad view of organizational interests—such as HR or Personnel—can help an organization take a more strategic approach to its most important—and expensive—asset.

Recommendation 14

The Personnel Department, collaborating with the Human Resources Department, should proactively facilitate the Special Salary Adjustment (SSA) application process by identifying yearly which classifications have the highest recruitment and retention difficulties; communicating with affected department directors; and working with them to submit SSA applications as appropriate.

- a) This effort could be included as part of the annual Workforce Report from Recommendation 7. (Priority 1)

Conclusion

Given its unusual market position, limited resources, and wide-ranging strategic goals, the City should strengthen its planning, monitoring, and communication capabilities regarding its most expensive and valuable asset—its \$1.5 billion workforce.

We found that widespread uncompetitive compensation poses a growing short- and long-term risk to the City's ability to maintain and attract a high-quality workforce, and has likely contributed to several negative effects on the City workforce and public services, including:

- Increased recruitment and retention challenges;
- Damage to the City's brand as an employer;
- Employee dissatisfaction; and
- Increased risk of fraud, waste, and abuse.

While decentralization of responsibilities and information may confer certain advantages, we found that communication challenges and a lack of strategic guidance appear to have historically hampered the City from taking a more strategic approach to workforce management. However, the City has taken some steps toward monitoring some core metrics. For example, it has recently begun monitoring employee satisfaction; it has analyzed compensation patterns, such as competitiveness with other cities and internal pay equity; and it possesses much of the information and capabilities necessary to take a more evidence-based approach to human capital management.

Adopting a more proactive and strategic approach can help the City accurately identify and adapt to changes in its workforce and make difficult decisions about directing limited resources to ensure quality public services for taxpayers, residents, and visitors.

Recommendations

Finding 1: Despite Years of Steady Revenue and Expenditure Growth, San Diego Lags Far Behind Other Cities in Compensation Competitiveness and Should Develop a Strategy to Mitigate Growing Risks to its Workforce and the Various Public Services it Provides

Recommendation 1 The Human Resources Department (HR), working collaboratively with the Department of Finance and the City's Executive Management, should document and articulate a Total Compensation Strategy, including but not limited to compensation and benefits components, levels, and market competitiveness to guide labor negotiations and set employee expectations with respect to compensation.

- a) Informed by HR's assessment efforts (see Recommendations 4 and 5), the strategy should include what role "non-economic" incentives can play – and how such incentives can help the City achieve its total compensation strategy.
- b) The City's strategy should include fiscal consideration and appropriate long-term forecasting for how the City can financially achieve its total compensation goals. (Priority 1)

Recommendation 2 Upon completion of the City's Total Compensation Strategy outlined in Recommendation #1, the Department of Finance should ensure that fiscal outlooks should incorporate and align with the Total Compensation Strategy. (Priority 1)

Recommendation 3 To mitigate employee dissatisfaction over low base pay, the Human Resources and Personnel Departments should build on their work to periodically communicate to employees the total value of their overall compensation and benefits—for example, via a periodic benefits summary or individual benefits statement. (Priority 3)

- Recommendation 4** The Human Resources Department should document and implement a more data-driven methodology—such as a periodic survey like the Employee Satisfaction Survey—for assessing:
- a) How satisfied employees are with their level of compensation and benefits;
 - b) Which forms of compensation or benefits are or would be most valued by employees; and
 - c) A comparison of these results to some sort of benchmarking criteria, such as results from the Federal Employee Viewpoint Survey, the Society for Human Resource Management's annual Employee Benefits report, etc.
 - i. Such an assessment should place particular emphasis on which non-economic incentives are most valued by employees and best align with the City's Total Compensation Strategy (from Recommendation 1). (Priority 2)

- Recommendation 5** The Human Resources Department should build on its work related to flex work arrangements, specifically by:
- a) Identifying how the City can minimize its risk and liability while offering flex work options;
 - b) Articulating updated guidance for employees and supervisors regarding flex work arrangements;
 - c) Encouraging expansion of flex work opportunities where appropriate; and
 - d) Developing a monitoring and reporting capability for flex work's effects. (Priority 1)

Finding 2: The City Can Strengthen its Efforts to Monitor and Communicate Core Metrics of its Workforce, in Order to Achieve its Broad Strategic Objectives and Provide Wide-Ranging Public Services

Recommendation 6 The Human Resources Department (HR) should outline and formally document its own plan, including goals, responsibilities, and the organizational efforts it is undertaking internally to strengthen its emphasis on Strategic Human Capital Management efforts.

City Executive Management should also consider the feasibility of maintaining support for—if not expanding—professional development opportunities that HR provides for departments across the City. (Priority 2)

Recommendation 7 HR and Personnel should jointly present an annual, publicly available Workforce Report to the City Council and Mayoral administration, updating City leadership by identifying key City positions facing challenges related to recruitment, retention, employee satisfaction and other metrics.

- a) The Workforce Report should include fundamental Human Capital Management (HCM) metrics on turnover rates, quits rates, vacancy rates, employee satisfaction, and others and should include benchmarking/comparative information, such as data from the U.S. Bureau of Labor Statistics, other large cities, the Society for Human Resource Management, etc.
- b) Among other content, the Workforce Report should identify:
 - i. A reasonable number—e.g. 10—of the job types for full-time employees, regardless of classification status, with:
 - The highest rates of turnover and/or voluntary separations;
 - The highest rates of vacancies; and
 - A metric assessing employee recruitment—for example, the number of “qualified” vs. “highly qualified” applicants.

- If they are not included among the job types above, the Workforce Report should also include the results for Police officers and Firefighters as well.
- ii. An assessment of the differences, if any, between employees with Defined Contribution retirement plans and the rest of the City workforce, with respect to recruitment and retention patterns and/or other metrics (e.g. satisfaction or engagement).
- c) The Workforce Report should identify key elements of concern within the workforce, such as recruitment, development, satisfaction/engagement, and retention problems, an action plan to address these issues, and a timeline for completion.
- d) The Workforce Report should be required by a strong mechanism, such as a Council Policy or Municipal Code amendment. (Priority 1)

Recommendation 8 In order to aid in the production of the workforce report—as well as ongoing monitoring during the intervening periods—the Human Resources, Personnel, Information Technology, Finance, and Performance and Analytics Departments should strengthen an interactive dashboard with monitoring and reporting capabilities for core Strategic Human Capital Management metrics. Specifically:

- a) Convene a working group to solicit concerns about reliability of the workforce data within the dashboard and issue a resulting action plan to address concerns raised.
- b) Expand the dashboard's historically available data to the maximum extent possible, not less than a period of five years.
- c) Display additional key workforce metrics, such as those listed in **Exhibit 22**. A metric on employee retention, including but not limited to turnover and quits rates, should be a top priority.
- d) Ensure the dashboard is widely accessible to stakeholders, such as analysts within each of their own

departments, the Office of the City Auditor, the Office of the Independent Budget Analyst, and interested individual operational departments that request access and have a reasonable business purpose.

- e) The dashboard should have “break-out” and export capabilities for at least the following dimensions:
- By department;
 - By job classification;
 - By labor group; and
 - By retirement plan type. (Priority 1)

Recommendation 9 The Human Resources and Personnel Departments should develop and monitor target goals or metrics for key aspects of the City's workforce, such as target turnover rates, quits rates, vacancy rates, etc. These should be formally documented, for example, by incorporation into the City's Total Compensation Strategy (from Recommendation 1) and annual Workforce Report (from Recommendation 7). (Priority 2)

Recommendation 10 The Human Resources Department should ensure the labor agreements currently being negotiated (in Spring 2020) do not preclude the possibility of re-negotiation once the City has developed more robust workforce analytics, which may identify particular areas of concern that need to be immediately addressed. (Priority 2)

Finding 3: The Special Salary Adjustment Process is a Control for Addressing Compensation Competitiveness, Recruitment, and Retention Issues; However, its Methodology Leads to Undercounting of Turnover, and the Process for Identifying Positions at Risk is Inefficient and Strategically Erratic

- Recommendation 11** The Personnel Department should ensure that the summary analyses behind Special Salary Adjustment (SSA) requests are retained for a period of at least several years to substantiate decisions regarding SSAs. (Priority 2)
- Recommendation 12** The Personnel Department (Personnel) should reform the way it calculates the rationale for whether Special Salary Adjustmnts (SSAs) are needed to conform with standard methodology employed by the U.S. Bureau of Labor Statistics. Personnel's methodology should include all employees who separated from City employment and use a more accurate measure of the average workforce size for the period in question when calculating turnover rates and quits rates.
- a) If Personnel continues to perform their current methodology as well, the calculation should be referred to as something other than a "turnover" rate. The more standard definition of turnover and/or quits—as defined by U.S. Bureau of Labor Statistics—should accompany SSA analyses brought before the Civil Service Commission and other forums. (Priority 1)
- Recommendation 13** Special Salary Adjustments should consistently present and include recruitment and retention information to the Civil Service Commission and other stakeholders in terms of rates, in addition to total number of employees. (Priority 2)
- Recommendation 14** The Personnel Department, collaborating with the Human Resoures Department, should proactively facilitate the Special Salary Adjustment (SSA) application process by identifying yearly which classifications have the highest recruitment and retention difficulties; communicating with affected department directors; and working with them to submit SSA applications as appropriate.
- a) This effort could be included as part of the annual Workforce Report from Recommendation 7. (Priority 1)

Appendix A: Definition of Audit Recommendation Priorities

The Office of the City Auditor maintains a priority classification scheme for audit recommendations based on the importance of each recommendation to the City, as described in the table below. While the City Auditor is responsible for providing a priority classification for recommendations, it is the City Administration's responsibility to establish a target date to implement each recommendation, taking into consideration its priority. The City Auditor requests that target dates be included in the Administration's official response to the audit findings and recommendations.

Priority Class ⁵²	Description
1	Fraud or serious violations are being committed. Significant fiscal and/or equivalent non-fiscal losses are occurring. Costly and/or detrimental operational inefficiencies are taking place. A significant internal control weakness has been identified.
2	The potential for incurring significant fiscal and/or equivalent non-fiscal losses exists. The potential for costly and/or detrimental operational inefficiencies exists. The potential for strengthening or improving internal controls exists.
3	Operation or administrative process will be improved.

⁵²The City Auditor is responsible for assigning audit recommendation priority class numbers. A recommendation that clearly fits the description for more than one priority class shall be assigned the higher priority.

Appendix B: Audit Objectives, Scope, and Methodology

In accordance with the Office of the City Auditor's Fiscal Year 2019 Audit Work Plan, we conducted a performance audit of the City's Strategic Human Capital Management.

Objectives

Our audit objectives for this work were to:

- Assess the degree of the City's compensation competitiveness, including:
 - Evaluating whether non-competitive compensation is a significant factor contributing to employee turnover and vacancies; and
 - Evaluating whether the City's efforts to collect, monitor, and analyze the reasons for employee separations are sufficient to allow the City to react to employee separation trends.
- Assess the extent of the City's efforts to encourage retention among high-quality employees, such as the Rewards and Recognition program, Tuition Reimbursement program, and others, including whether the programs are right-sized, and what additional efforts the City may be able to undertake.
- Assess the extent of the City's disciplinary efforts, and the possibility for reforms to the disciplinary process.

Due to the wide-range of issues and information covered in this project, we focused this report primarily on findings, issues, and recommendations related to issues of compensation, retention, and overall Strategic Human Capital Management.⁵³

⁵³ Our office is conducting additional audit work focusing more closely on issues of employee performance, which we had to separate and will continue work on as a separate report.

Scope Our scope period generally included the period from 2011 to 2019 but varied depending on the availability of information. As an example, we used data from the Citywide Employee Satisfaction Survey, which was conducted in 2017 and 2019. Citywide workforce data was exported from SAP as of January 1st of each year from 2011 to 2019. The Personnel Department provided us with turnover data, which spanned the years 2011 through part of 2019.

Methodology We reviewed presentations and materials from the Department of Finance and the Office of the Independent Budget Analyst, including City budget documents, fiscal impact reports, and financial outlook documents.

We analyzed workforce data based on size, vacancies, and turnover; examined Employee Satisfaction Survey results; reviewed examples of Special Salary Adjustment analyses; attended Civil Service Commission meetings; and conducted interviews with HR, Personnel, and Finance as well as representatives from two employee labor groups: the Municipal Employees Association and the Deputy City Attorneys Association. We also utilized a recent survey we conducted of hundreds of supervisors, managers, and executives in departments Citywide on a variety of issues as part of our Citywide Human Capital Fact Book. This Citywide Management Survey included 670 recipients, 431 of whom provided responses.

We reviewed public presentation and discussion related to the City's identification of an alleged Police recruitment and retention crisis, as well as the supporting documentation provided to the public as part of resulting Police raises. We also reviewed additional information regarding the raises, which HR provided to us and, according to HR, had been shared with City leaders.

We reviewed best practices in literature and research related to Strategic Human Capital Management, such as *Human Capital: Tools and Strategies for the Public Sector*; the Society for Human Resource Management; and Gallup Workplace. We also reviewed

guidance from the Government Finance Officers Association regarding planning for personnel expenditures.

We also compared turnover calculation methodology by the City of San Diego's Personnel Department to the methodology utilized by the U.S. Bureau of Labor Statistics.

Data Reliability and Internal Controls

We considered the significance of data reliability and internal controls to our audit objectives.

Due to the large number of different datasets in our analysis, we used a risk-based approach to conduct data reliability testing on key pieces of data. For example, we selected a judgmentally-sized sample of 50 employees who separated from the City and requested the physical supporting documentation for each of those employees. We found no material issues with the separations data.

We also interviewed Personnel regarding internal controls to ensure the City was capturing documentation for all separating employees. Personnel listed several internal controls, including requiring supervisors to submit separation documentation and linking the provision of separation documentation with releasing last paychecks for separating employees.

We note, however, that it was not feasible to conduct thorough source data testing on every dataset. For example, we used the City's most recent salary studies, which were completed by a third-party contractor, to report the City's compensation competitiveness compared to other California cities. Similarly, we used the City's main workforce management system, SAP, to count and calculate vacancy rates. Throughout the report, we included attribution to data sources where relevant.

The missions, responsibilities, and capabilities of HR and Personnel are another form of internal control that are relevant to our objectives and the City's approach to strategic human capital management. We identify decentralization and communication issues as a contributing cause of our findings. The Special Salary Adjustment process is another form of internal control, which we considered and reviewed as

significant to our objectives. Issues related to that process are identified primarily within Finding 3.

Prior to publication and presentation, we provided an outline of our report to HR and Personnel and encouraged their feedback regarding material issues related to findings, conclusions, and recommendations as we began outlining and writing. We also shared a draft version of this report with HR, Personnel, Finance, Police, and the City's Executive Management and incorporated elements of their suggestions and feedback as appropriate.

We note that part of this audit was conducted during the coronavirus pandemic of 2020, which came with considerable operational disruption.

Compliance Statement

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.

Appendix C: Employee Satisfaction Survey 2019 and 2017, Summarized Results by Department

Exhibit 49

Employee Satisfaction Survey 2019, Summarized Results by Department, Part I

Department	I am generally satisfied in my current position My work gives me a feeling of personal accomplishment I know how my work relates to my department's mission I know how my work relates to the City's Strategic Plan I would recommend the City of San Diego as a place to work My skills are used in the workplace I feel encouraged to provide ideas on new ways of doing things I have opportunities to provide ideas on new ways of doing things I believe I have a path for career advancement I receive recognition if I perform well My direct supervisor inspires me My direct supervisor actively listens to me My direct supervisor is fair and equitable My direct supervisor sets clear goals and expectations Poor job performance is dealt with effectively and my supervisor My department management is dealt with effectively by me My department management inspires me My department management actively listens to me My department management sets clear goals and expectations Poor job performance is dealt with effectively in my department																						
	Job Satisfaction					Growth and Recognition					Supervisors					Management							
	1	2	3	4	5	7	8	9	10	11	13	14	15	16	17	19	20	21	22	23			
Independent Budget Analyst	100%	100%	100%	100%	75%	100%	100%	100%	75%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%			
Homeland Security	83%	100%	100%	100%	83%	100%	83%	100%	50%	67%	100%	100%	100%	83%	80%	75%	80%	100%	60%				
Performance & Analytics	100%	100%	100%	88%	88%	88%	100%	88%	75%	88%	88%	100%	88%	88%	100%	100%	100%	100%	86%				
COO, ACOO, CFO, DCOO, Corporate Partnership&Dev, Docket, Special Events & Filming	69%	85%	100%	85%	69%	92%	92%	85%	77%	69%	77%	85%	77%	100%	79%	86%	92%	86%	83%				
Mayor's Office or City Council	91%	86%	95%	82%	76%	95%	74%	78%	55%	77%	78%	83%	95%	74%	60%	71%	80%	100%	67%	58%			
Debt Management	88%	88%	88%	88%	63%	88%	50%	75%	50%	75%	75%	88%	88%	63%	100%	63%	50%	100%	63%	83%			
Human Resources	88%	94%	88%	88%	81%	100%	69%	81%	69%	81%	88%	88%	81%	88%	77%	75%	75%	69%	75%	62%			
City Clerk	80%	80%	93%	93%	64%	87%	73%	47%	53%	80%	93%	87%	93%	87%	79%	60%	73%	80%	87%	62%			
SDCERS	74%	74%	93%	83%	62%	81%	70%	70%	54%	59%	60%	69%	85%	76%	52%	56%	67%	65%	63%	59%			
City Auditor	80%	90%	100%	90%	30%	100%	90%	90%	90%	60%	78%	89%	89%	89%	50%	56%	67%	56%	56%	44%			
Communications	56%	56%	94%	81%	25%	88%	81%	50%	31%	75%	63%	94%	94%	81%	64%	67%	80%	73%	87%	54%			
City Treasurer	72%	61%	94%	91%	71%	81%	67%	61%	60%	67%	61%	75%	75%	72%	66%	64%	67%	83%	69%	65%			
Risk Management	67%	73%	90%	77%	71%	81%	52%	77%	57%	60%	67%	75%	92%	72%	64%	53%	62%	72%	63%	47%			
Information Technology	78%	75%	85%	77%	62%	87%	73%	75%	63%	80%	78%	83%	85%	78%	46%	63%	68%	70%	65%	36%			
Department of Finance	76%	81%	89%	81%	61%	87%	70%	83%	62%	63%	63%	87%	93%	78%	59%	48%	54%	72%	59%	38%			
Library	73%	81%	89%	70%	62%	86%	69%	68%	51%	60%	68%	80%	82%	71%	57%	46%	51%	53%	55%	42%			
Public Works	71%	75%	86%	74%	57%	86%	64%	71%	63%	56%	65%	75%	85%	70%	59%	52%	53%	66%	55%	36%			
Real Estate Assets	74%	79%	87%	75%	62%	92%	68%	71%	63%	68%	62%	76%	73%	68%	47%	58%	62%	62%	58%	48%			
Transportation & Storm Water	70%	69%	90%	72%	58%	78%	65%	70%	57%	56%	57%	75%	82%	69%	61%	48%	46%	66%	57%	40%			
Economic Development	75%	77%	91%	88%	60%	84%	75%	55%	47%	58%	63%	77%	81%	67%	60%	47%	53%	69%	55%	30%			
Personnel	75%	65%	100%	74%	67%	81%	48%	67%	47%	52%	55%	76%	85%	60%	53%	45%	45%	65%	50%	22%			
Development Services	70%	71%	86%	70%	54%	80%	56%	66%	55%	59%	66%	80%	81%	70%	62%	43%	47%	60%	49%	43%			
Planning	66%	79%	92%	84%	65%	84%	68%	66%	50%	65%	55%	71%	73%	63%	50%	47%	46%	38%	56%	29%			
Environmental Services	74%	70%	84%	73%	52%	81%	58%	57%	48%	55%	60%	75%	81%	69%	59%	30%	44%	56%	50%	35%			
Grand Total	69%	74%	85%	66%	49%	83%	58%	66%	53%	53%	61%	75%	79%	68%	58%	40%	44%	55%	51%	37%			
Police	73%	81%	86%	54%	50%	86%	55%	65%	54%	52%	56%	74%	76%	69%	55%	38%	42%	56%	53%	37%			
Parks & Recreation	67%	75%	83%	63%	51%	79%	58%	58%	47%	53%	57%	69%	72%	66%	58%	39%	43%	57%	51%	42%			
City Attorney	76%	74%	89%	61%	43%	83%	59%	62%	41%	55%	61%	77%	72%	63%	55%	33%	42%	49%	40%	28%			
Public Utilities	64%	72%	85%	67%	44%	79%	53%	63%	47%	50%	55%	70%	78%	62%	51%	31%	34%	46%	41%	31%			
Fire Rescue	63%	75%	81%	39%	15%	87%	48%	73%	66%	40%	66%	80%	77%	72%	66%	24%	26%	38%	48%	31%			
Not provided	60%	64%	81%	65%	39%	75%	48%	56%	40%	44%	54%	68%	77%	60%	54%	33%	38%	51%	47%	33%			
Purchasing & Contracting	60%	53%	80%	60%	64%	80%	67%	60%	33%	40%	47%	60%	92%	47%	50%	33%	53%	71%	57%	38%			
Sustainability	57%	57%	71%	71%	43%	71%	57%	71%	43%	57%	29%	43%	57%	57%	29%	43%	57%	57%	29%	0%			
Fleet Operations	66%	64%	69%	65%	47%	83%	52%	50%	39%	37%	41%	56%	49%	48%	40%	22%	33%	33%	34%	25%			

Source: OCA, based on 2019 Employee Satisfaction Survey data.

Exhibit 50

Employee Satisfaction Survey 2019, Summarized Results by Department, Part II

Department	Teamwork					Professional development/Career mobility					Resources and Communication					Work Environment				Average positive	Cumulative Rank	Approximate N	
	26	27	28	29	30	32	33	34	35	36	37	38	39	40	41	43	44	45	46				47
Independent Budget Analyst	100%	100%	100%	100%	100%	75%	67%	67%	67%	100%	75%	75%	100%	100%	75%	100%	100%	0%	100%	50%	90%	1	4
Homeland Security	83%	83%	83%	83%	100%	100%	100%	100%	83%	67%	83%	83%	83%	67%	67%	67%	67%	83%	100%	50%	84%	2	6
Performance & Analytics	88%	100%	100%	100%	88%	63%	75%	43%	57%	100%	86%	63%	71%	88%	100%	88%	25%	0%	100%	0%	82%	3	8
COO, ACOO, CFO, DCOO, Corporate Partnership&Dev, Docket, Special Events & Filming	86%	100%	100%	93%	79%	64%	71%	64%	64%	75%	86%	57%	79%	79%	79%	64%	36%	50%	100%	55%	79%	4	14
Mayor's Office or City Council	91%	87%	87%	87%	91%	59%	63%	70%	58%	63%	86%	59%	83%	95%	82%	77%	47%	43%	100%	44%	76%	5	23
Debt Management	88%	100%	88%	100%	100%	50%	75%	63%	63%	75%	75%	25%	100%	88%	86%	88%	29%	13%	100%	50%	74%	6	8
Human Resources	88%	88%	88%	81%	88%	53%	50%	63%	88%	71%	69%	20%	75%	75%	75%	67%	42%	38%	88%	33%	74%	7	16
City Clerk	79%	80%	87%	67%	80%	60%	60%	43%	53%	43%	80%	60%	73%	80%	87%	71%	50%	20%	93%	50%	71%	8	15
SDCERS	77%	89%	65%	81%	81%	81%	67%	59%	58%	62%	85%	78%	89%	62%	60%	56%	75%	74%	77%	68%	70%	9	27
City Auditor	100%	100%	100%	100%	100%	56%	89%	89%	67%	88%	33%	11%	38%	78%	67%	56%	14%	22%	100%	0%	70%	10	10
Communications	88%	94%	69%	88%	94%	56%	63%	44%	69%	60%	81%	56%	88%	75%	69%	88%	27%	50%	93%	36%	69%	11	16
City Treasurer	72%	72%	64%	75%	86%	77%	65%	65%	65%	67%	79%	61%	83%	61%	63%	71%	57%	47%	78%	41%	69%	12	36
Risk Management	73%	88%	66%	79%	87%	79%	74%	68%	68%	66%	79%	53%	81%	62%	64%	53%	53%	70%	83%	51%	69%	13	48
Information Technology	83%	85%	75%	83%	80%	80%	65%	58%	60%	78%	63%	80%	64%	62%	50%	49%	49%	43%	75%	43%	69%	14	40
Department of Finance	74%	80%	59%	89%	83%	61%	74%	72%	72%	57%	69%	53%	72%	56%	63%	44%	24%	41%	85%	41%	67%	15	54
Library	82%	91%	70%	84%	87%	71%	60%	52%	60%	56%	73%	47%	76%	60%	49%	57%	47%	53%	92%	42%	66%	16	292
Public Works	77%	88%	67%	85%	88%	66%	60%	50%	66%	57%	64%	52%	76%	63%	56%	42%	36%	68%	79%	47%	65%	17	342
Real Estate Assets	74%	87%	62%	78%	76%	49%	59%	54%	56%	53%	68%	37%	67%	68%	66%	65%	36%	65%	73%	43%	65%	18	38
Transportation & Storm Water	76%	87%	71%	83%	86%	66%	58%	52%	61%	60%	63%	48%	69%	68%	51%	48%	34%	50%	82%	35%	63%	19	181
Economic Development	79%	86%	70%	84%	82%	66%	40%	35%	65%	58%	63%	28%	72%	58%	58%	44%	54%	42%	86%	40%	63%	20	44
Personnel	80%	90%	70%	80%	95%	65%	45%	53%	53%	65%	55%	30%	85%	50%	55%	50%	50%	65%	85%	27%	62%	21	21
Development Services	79%	90%	74%	83%	87%	63%	53%	48%	50%	55%	56%	28%	64%	68%	54%	51%	30%	19%	73%	28%	60%	22	282
Planning	78%	89%	65%	84%	89%	67%	46%	35%	69%	57%	58%	51%	64%	54%	64%	65%	26%	8%	81%	19%	60%	23	38
Environmental Services	79%	79%	65%	81%	88%	61%	54%	51%	61%	53%	65%	52%	71%	55%	49%	41%	24%	52%	82%	35%	60%	24	85
Grand Total	74%	86%	67%	81%	83%	65%	58%	51%	61%	54%	61%	40%	67%	59%	50%	47%	33%	41%	78%	31%	60%	25	3758
Police	75%	88%	68%	83%	87%	78%	62%	52%	55%	57%	53%	24%	64%	57%	52%	46%	40%	29%	70%	31%	60%	26	393
Parks & Recreation	68%	84%	64%	78%	80%	63%	60%	52%	64%	53%	59%	33%	62%	53%	43%	48%	33%	47%	77%	31%	58%	27	239
City Attorney	68%	85%	56%	77%	83%	63%	64%	57%	54%	40%	58%	34%	64%	55%	43%	41%	21%	47%	69%	21%	57%	28	124
Public Utilities	67%	83%	59%	79%	76%	63%	59%	53%	75%	50%	62%	46%	63%	51%	44%	43%	25%	45%	70%	28%	57%	29	514
Fire Rescue	79%	90%	75%	85%	84%	66%	58%	53%	52%	64%	55%	33%	66%	63%	35%	34%	25%	22%	87%	17%	57%	30	359
Not provided	66%	80%	60%	75%	77%	54%	46%	45%	58%	41%	58%	41%	60%	55%	52%	42%	21%	34%	75%	23%	54%	31	395
Purchasing & Contracting	57%	47%	47%	80%	73%	15%	43%	29%	43%	43%	67%	43%	53%	60%	53%	36%	25%	57%	50%	18%	52%	32	15
Sustainability	71%	100%	86%	100%	86%	43%	14%	14%	43%	29%	29%	0%	43%	71%	43%	50%	50%	50%	100%	20%	51%	33	7
Fleet Operations	54%	81%	47%	69%	81%	61%	32%	25%	47%	38%	44%	20%	34%	51%	45%	40%	16%	32%	49%	27%	46%	34	59

Source: OCA, based on 2019 Employee Satisfaction Survey data.

Exhibit 51

Employee Satisfaction Survey 2017, Summarized Results by Department, Part I

	Job Satisfaction					Growth and Recognition					Management					Teamwork				
	1	2	3	4	5	7	8	9	10	11	13	14	15	16	17	19	20	21	22	23
Department																				
COO, ACOO, etc.	100%	91%	100%	100%	100%	100%	100%	100%	80%	82%	92%	100%	83%	92%	90%	92%	100%	100%	92%	100%
Homeland Security	82%	82%	91%	90%	100%	91%	91%	100%	55%	82%	91%	91%	100%	91%	67%	91%	91%	91%	73%	100%
Performance and Analytics	100%	100%	100%	92%	92%	83%	91%	83%	58%	83%	92%	100%	100%	100%	70%	92%	100%	83%	92%	92%
Human Resources	87%	83%	96%	91%	81%	96%	96%	83%	68%	82%	83%	83%	91%	74%	82%	95%	100%	86%	95%	96%
Information Technology	89%	88%	95%	82%	84%	93%	95%	88%	66%	79%	69%	85%	93%	79%	53%	86%	95%	75%	91%	95%
Mayor's Office or City Council	92%	88%	92%	81%	92%	96%	85%	81%	58%	81%	73%	81%	92%	69%	60%	92%	88%	72%	84%	92%
Independent Budget Analyst	83%	100%	83%	20%	100%	100%	83%	100%	80%	80%	80%	80%	100%	80%	20%	100%	100%	100%	100%	100%
Financial Management	80%	80%	95%	90%	65%	80%	70%	85%	80%	72%	84%	79%	95%	84%	83%	84%	100%	79%	89%	79%
City Clerk	90%	90%	97%	86%	84%	100%	71%	77%	57%	67%	72%	72%	83%	73%	63%	84%	90%	71%	90%	94%
City Auditor	100%	75%	100%	75%	63%	100%	75%	75%	75%	75%	63%	75%	88%	75%	33%	88%	100%	75%	100%	100%
Communications	68%	80%	96%	76%	60%	84%	80%	76%	54%	79%	76%	80%	76%	76%	53%	76%	88%	68%	76%	80%
City Comptroller	80%	81%	92%	84%	74%	80%	74%	69%	68%	66%	63%	65%	81%	72%	31%	81%	89%	64%	83%	92%
SDCERS	78%	73%	91%	77%	68%	87%	78%	78%	64%	67%	59%	64%	81%	70%	41%	71%	89%	66%	80%	82%
Real Estate Assets	87%	83%	89%	80%	71%	93%	71%	80%	61%	78%	70%	78%	87%	67%	38%	80%	98%	58%	87%	87%
City Treasurer	76%	79%	93%	81%	82%	86%	69%	72%	59%	74%	67%	67%	78%	76%	44%	77%	79%	69%	70%	79%
Purchasing and Contracting	67%	72%	98%	81%	70%	86%	79%	79%	65%	63%	81%	84%	88%	81%	43%	79%	79%	70%	84%	88%
Public Works	76%	78%	90%	76%	66%	81%	65%	68%	62%	57%	54%	58%	73%	61%	41%	76%	89%	67%	83%	85%
Transportation and Storm Water	76%	73%	89%	72%	71%	80%	66%	70%	62%	63%	52%	60%	71%	64%	43%	77%	85%	66%	78%	82%
Personnel	100%	78%	100%	89%	89%	67%	78%	56%	56%	67%	33%	56%	67%	78%	33%	89%	89%	56%	89%	78%
Debt Management	78%	67%	100%	90%	78%	89%	80%	89%	33%	75%	56%	90%	90%	70%	43%	78%	90%	56%	70%	56%
Fire-Rescue	83%	87%	93%	57%	40%	91%	55%	80%	72%	56%	48%	52%	67%	65%	29%	83%	91%	74%	88%	86%
Economic Development	68%	70%	82%	76%	62%	67%	66%	56%	46%	64%	56%	50%	72%	64%	35%	66%	86%	60%	72%	76%
Park and Recreation	74%	80%	88%	71%	65%	86%	66%	65%	55%	54%	52%	57%	72%	63%	43%	71%	84%	60%	76%	82%
Library	75%	82%	90%	69%	68%	83%	60%	66%	54%	55%	47%	54%	60%	57%	35%	78%	88%	68%	81%	82%
City Board or Commission Staff	67%	50%	83%	100%	67%	83%	83%	67%	50%	67%	50%	50%	67%	50%	40%	83%	83%	67%	67%	67%
Grand Total	74%	77%	89%	70%	60%	85%	63%	68%	55%	56%	49%	54%	68%	60%	35%	75%	87%	65%	80%	83%
Planning	68%	82%	89%	79%	58%	79%	63%	68%	43%	62%	47%	50%	58%	58%	19%	71%	95%	66%	84%	87%
Public Utilities	71%	74%	89%	74%	57%	85%	64%	69%	51%	54%	48%	48%	63%	59%	32%	74%	83%	63%	77%	79%
Development Services	74%	78%	87%	72%	53%	86%	60%	67%	55%	62%	47%	57%	68%	60%	36%	77%	92%	73%	88%	87%
City Attorney	68%	78%	92%	63%	56%	89%	59%	65%	38%	60%	41%	47%	68%	49%	19%	74%	83%	55%	76%	86%
Police	75%	78%	88%	56%	46%	89%	58%	62%	53%	49%	39%	48%	67%	56%	25%	76%	88%	69%	81%	88%
Fleet Operations	71%	72%	83%	70%	62%	89%	60%	67%	55%	50%	42%	43%	56%	55%	43%	59%	83%	65%	78%	82%
Risk Management	55%	64%	82%	67%	52%	79%	48%	73%	42%	61%	42%	42%	73%	45%	23%	61%	79%	52%	76%	87%
No Response	64%	64%	82%	65%	51%	79%	53%	62%	41%	45%	37%	45%	59%	48%	28%	64%	83%	59%	72%	81%
Environmental Services	67%	66%	78%	66%	58%	79%	48%	51%	41%	44%	30%	35%	52%	44%	23%	66%	84%	54%	76%	73%

Source: OCA, based on 2017 Employee Satisfaction Survey data.

Exhibit 52

Employee Satisfaction Survey 2017, Summarized Results by Department, Part II

Department	Resources and Communication					Work Environment					Average positive response %	Cumulative Rank (out of 35)	Approximate N
	25. I have access to the tools, equipment and materials I need to do my job well.	26. The burden of my job is not too heavy.	27. I have access to the information I need to do my job.	28. Employees in my department communicate well with each other.	29. Employees in my department communicate well with other departments.	30. Employees who perform well receive recognition.	31. I perceive the work environment to be better than other Government agencies.	32. I am satisfied with the physical conditions of my work place (e.g., noise level, temperature, lighting).	33. My department provides high-quality services to our customers.	34. Compared to several years ago, the overall quality of the work environment at the City of San Diego has gotten better.	Average positive response %	Cumulative Rank	Approximate N
COO, ACOO, etc.	92%	75%	92%	100%	100%	67%	100%	58%	100%	100%	93%	1	12
Homeland Security	91%	100%	100%	82%	91%	73%	64%	73%	91%	100%	87%	2	11
Performance and Analytics	83%	50%	92%	100%	91%	75%	70%	25%	100%	67%	85%	3	12
Human Resources	78%	52%	87%	83%	91%	85%	67%	65%	95%	71%	84%	4	23
Information Technology	91%	84%	86%	72%	68%	74%	62%	49%	91%	76%	81%	5	57
Mayor's Office or City Council	92%	62%	77%	88%	80%	81%	77%	40%	100%	71%	81%	6	26
Independent Budget Analyst	100%	67%	83%	100%	100%	60%	40%	50%	100%	20%	80%	7	6
Financial Management	75%	45%	85%	85%	85%	72%	56%	25%	85%	67%	78%	8	20
City Clerk	66%	68%	83%	60%	89%	76%	67%	40%	97%	50%	77%	9	31
City Auditor	88%	63%	75%	88%	100%	63%	38%	25%	100%	50%	77%	10	8
Communications	84%	68%	80%	75%	76%	63%	43%	80%	84%	63%	74%	11	25
City Comptroller	80%	68%	87%	75%	75%	67%	50%	44%	96%	69%	73%	12	54
SDCERS	84%	78%	82%	62%	67%	71%	63%	84%	84%	62%	73%	13	45
Real Estate Assets	76%	47%	72%	72%	61%	69%	46%	63%	85%	53%	73%	14	46
City Treasurer	85%	71%	90%	61%	65%	66%	57%	54%	87%	62%	72%	15	84
Purchasing and Contracting	81%	65%	70%	60%	64%	60%	32%	55%	83%	59%	72%	16	43
Public Works	74%	57%	74%	70%	57%	52%	44%	68%	80%	53%	68%	17	379
Transportation and Storm Water	76%	55%	71%	65%	52%	58%	48%	57%	85%	57%	67%	18	241
Personnel	78%	56%	100%	56%	63%	56%	17%	44%	78%	33%	67%	19	9
Debt Management	70%	40%	78%	78%	75%	75%	17%	0%	100%	0%	67%	20	10
Fire-Rescue	78%	38%	79%	61%	42%	48%	51%	38%	90%	41%	65%	21	281
Economic Development	80%	64%	78%	51%	55%	72%	51%	74%	92%	44%	65%	22	51
Park and Recreation	70%	51%	74%	59%	48%	48%	50%	58%	81%	51%	65%	23	349
Library	69%	59%	73%	57%	45%	48%	45%	57%	87%	42%	64%	24	406
City Board or Commission Staff	67%	0%	67%	83%	83%	60%	67%	50%	67%	33%	64%	25	6
Grand Total	69%	49%	72%	60%	52%	50%	41%	49%	81%	43%	64%	26	4580
Planning	62%	53%	87%	59%	58%	61%	33%	34%	87%	46%	63%	27	38
Public Utilities	74%	57%	75%	55%	49%	47%	37%	58%	79%	44%	63%	28	707
Development Services	45%	20%	54%	66%	55%	55%	29%	18%	77%	31%	61%	29	238
City Attorney	67%	52%	76%	52%	45%	48%	27%	43%	75%	35%	60%	30	167
Police	54%	27%	70%	59%	51%	45%	39%	32%	73%	32%	59%	31	547
Fleet Operations	61%	31%	51%	57%	46%	35%	30%	42%	70%	40%	58%	32	123
Risk Management	61%	30%	76%	55%	55%	45%	41%	58%	69%	50%	58%	33	33
No Response	59%	45%	63%	53%	50%	45%	29%	36%	81%	32%	56%	34	364
Environmental Services	64%	47%	67%	39%	39%	30%	25%	57%	79%	28%	54%	35	128

Source: OCA, based on 2017 Employee Satisfaction Survey data.




THE CITY OF SAN DIEGO

M E M O R A N D U M

DATE: April 21, 2020

TO: Kyle Elser, Interim City Auditor, Office of the City Auditor

FROM: Julie Rasco, Director, Human Resources Department
via Jeff Sturak, Assistant Chief Operating Officer 

SUBJECT: Management's Response to the Strategic Human Capital Management Audit

The purpose of this memorandum is to provide a response to the City Auditor's Performance Audit (Report) of the City's Strategic Human Capital Management (SHCM).

The Report contains helpful recommendations that will benefit the City of San Diego (City) in addressing City employee pay discrepancies that have developed over the last 10-12 years. City management agrees with the recommendations provided in the Report and will work cooperatively with different stakeholders to increase the strategic discussion and analysis in reviewing compensation, including non-monetary options.

The City's 11,800 employees are our most important asset. Wage and benefit expenses for the City's employees are one of the largest expenses in the City's operating budget, thus even minor salary adjustments can create significant fiscal impacts to City revenues and expenses. Compensation levels may have been able to keep pace with local and industry scales if not for competing funding priorities, revenue restrictions, and unfunded pension obligations. City leadership has had to maneuver through the significant revenue and expenditure variables that have occurred over the last decade, directly impacting compensation levels, service delivery, and infrastructure investment. In addition, with the unprecedented impacts of the COVID-19 pandemic, decisions facing City leaders will be substantially more difficult in the future. The following information provides additional context regarding the greater discussion of City employee compensation.

A significant impact to the City's revenue priorities is the ongoing funding requirements for the San Diego City Employees Retirement System. Through prior deliberate underfunding decisions by previous City management, investment losses in the Great Recession and some of the most conservative portfolio management assumptions in the nation, the City has been legally required to deliver an additional \$2.7 billion dollars into the retirement fund since 2011. ¹ The annual required payment for the next five years is estimated to be over \$360M, each year, consuming about 18% of the General Fund's total budget. More than \$150M of the \$360M annual pension payment is due to the deliberate past underfunding of the pension system. Stakeholders must be very engaged in the effect that salary adjustments have on pension

¹ Investment losses from the 2008 Market crash increased the Unfunded Pension Liability by \$811.4 million and in 2015 the independent SDCERS Retirement Board accepted a change in mortality assumptions which increased the Unfunded Pension Liability an additional \$444.3M. From FY 2008 to FY 2018 the Unfunded Pension Liability increased from \$1.30B to \$2.97B.

payment requirements. Each one percent (1%) in Citywide salary adjustment above the actuary's salary inflation assumption increases required pension contributions by approximately \$2.9 million annually. And these figures do not take into consideration the impacts of the COVID-19 pandemic that are still unknown.

The City also faces significant infrastructure needs due to long ago deferment of regular maintenance. The FY 2021 priority capital infrastructure needs as reported to the City Council in January 2020 is \$654.7 million with a funding gap of \$154.8 million. The funding gap for priority infrastructure needs is estimated to grow to \$306.4 million by FY 2024. Additionally, due to irresponsible past funding decisions on acceptable road maintenance, the City now has an estimated FY 2021 annual need of \$105 million to keep roads in a condition that is acceptable to taxpayers.

Unfortunately, the Report does not fully discuss proactive measures approved by the City Council that increased employee benefits when the City was under legal requirements that placed limits on its ability to increase pensionable pay. These actions were completed in FY 2017 and FY 2018 through legally required collective bargaining. The adjustments included a minimum combined \$1,650 increase in flexible benefit allowances for employees in the six bargaining units as well as 160 hours of parental leave, additional bereavement leave, and add-on pays for numerous classifications. This is in addition to general salary increases in Fiscal Years 2019 and 2020 (3.3% each fiscal Year) for four of the six bargaining units. Police Officers Association (POA) represented employees with less than 20 years' service received a 25.6% general salary increase, and those with 20 or more years received a 30.6% salary increase. Specific classifications for each of the six bargaining units were also targeted with additional salary increases through Special Salary Adjustments and various add-on pays, including special assignment and certification pays.

Currently, under the leadership of the Mayor and City Council, meet and confer negotiations are being held with the City's six bargaining units. At the inception of the current Meet and Confer process, the City's goal was to make progressively small steps in the process of bringing average salaries to regional levels in the context of the City's budget with many competing priorities. This has been impacted by COVID-19, which has changed most of the assumptions presented in the Auditor's Report. The City is challenged with an estimated minimum reduction of a combined \$250M in revenue in Fiscal Years 2020 and 2021, requiring the reduction of 365 positions in the Fiscal Year 2021 Proposed Budget. Since the release of the FY 2021 Proposed Budget on April 15, 2020, the Department of Finance has revised revenue projections that include an additional reduction of over \$50M bringing the total to over \$300M for Fiscal Years 2020 and 2021. As a result, additional position reductions are required and will be included in the May Revise.

Layered on top of these competing revenue and expenditure requirements is the impacts of the 2008 Great Recession, from which the City has taken eight years to recover. The revenue declines during the recession severely impacted the City's ability to balance available revenues with competitive compensation levels and service and infrastructure expectations. It has only been over the last three fiscal years that the City has come out of the impacts of the Great Recession to then be impacted by the COVID-19 pandemic. The impacts of the pandemic on the City's revenue is unprecedented, and it will take years to recover.

It is also important to note that many of the recommendations in the Auditor's Report fall under the Personnel Department, whose director is appointed by the Civil Service Commission - an independent body that does not report to the Mayor. Per the City Charter (Section 118) it is

the Civil Service Commission, and thus the Personnel Director, who recommends to the City Council all rules and amendments for the government, supervision, and control of the classified services. The City's current classified service makes up 99 percent of the City's FY 2020 11,820 budgeted positions.

City management agrees that increased compensation creates stability, increases morale and employee engagement, and has the potential to reduce risk. Every organization must make difficult decisions weighing priorities against resources. Our present choices are exponentially more difficult due to previous City management's decisions to significantly underfund both pensions and infrastructure. Those past choices have been further compounded by the impact of the 2008 Great Recession and the Covid-19 pandemic. Balancing the needs of City residents, visitors, and employees is a challenging undertaking, and City management is up to the task. City management would like to thank the City Auditor's office for providing the information contained in the Report and looks forward to collectively working toward compensation solutions for all.

Provided below are City management's response to the recommendations outlined in the Report:

RECOMMENDATION #1: HR, working collaboratively with Finance and Executive leadership, should document and articulate a Total Compensation Strategy, including but not limited to compensation and benefits components, levels, and market competitiveness to guide labor negotiations and set employee expectations with respect to compensation.

- a) Informed by HR's assessment efforts (see Recommendations 4 and 5), the strategy should include what role "non-economic" incentives can play – and how such incentives can help the City achieve its total compensation strategy.
- b) The City's strategy should include fiscal consideration and appropriate budgeting for how the City can financially achieve its total compensation goals.

MANAGEMENT RESPONSE: Management agrees with the recommendation.

The Human Resources Department will work with the City's Executive leadership, Department of Finance, and Personnel Department to develop a total Compensation Strategy. The strategy will take into consideration the City's financial circumstances and other factors as outlined in the Auditor's report.

TARGET IMPLEMENTATION DATE: By end of Fiscal Year 2021.

RECOMMENDATION #2: Upon completion of the City's Total Compensation Strategy outlined in Recommendation #1, the Department of Finance should ensure that fiscal outlooks should incorporate and align with the Total Compensation Strategy.

MANAGEMENT RESPONSE: Management agrees with the recommendation.

Upon completion of a Total Compensation Strategy, future fiscal outlooks will include assumptions that reflect those policies.

TARGET IMPLEMENTATION DATE: By the end of Fiscal Year 2022.

RECOMMENDATION #3: HR and Personnel should build on their work to communicate to employees – for example via a periodic Benefits summary or Individual Benefits Statement –

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April 21, 2020

the total value of overall compensation and benefits in an attempt to mitigate employee dissatisfaction over their low base pay so that employees can periodically see the value of their total compensation and benefits.

MANAGEMENT RESPONSE: Management agrees with the recommendation.

HR has completed, and published, a benefit summary for unclassified employees and will work with the Personnel and Risk Management Departments to continue to expand upon the information included in the summary for classified employees as a whole, and by bargaining unit.

TARGET IMPLEMENTATION DATE: December 2020.

RECOMMENDATION #4: HR should document and implement a more data-driven methodology – such as a periodic survey like the Employee Satisfaction Survey – for assessing:

- a) How satisfied employees are with their level of compensation and benefits
- b) Which forms of compensation or benefits are or would be most valued by employees
- c) A comparison of these results to some sort of benchmarking criteria, such as results from the Federal Employee Viewpoint Survey, SHRM's annual Employee Benefits report, etc.

MANAGEMENT RESPONSE: Management agrees with the recommendation with conditions stated below due to COVID-19.

Currently the Performance and Analytics Department (Panda) conducts a bi-annual employee satisfaction survey (This survey may be delayed depending on negative revenue impacts due to COVID-19). HR will work with Panda to incorporate questions focusing on compensation and benefits in the next employee satisfaction survey. The results of the survey will be compared against other jurisdictions of similar size and structure to provide feedback and recommendations to management for consideration.

TARGET IMPLEMENTATION DATE: December 2022.

RECOMMENDATION #5: HR should build on its work regarding flex work arrangements, specifically:

- a) Identifying how the City can minimize its risk and liability while offering flex work options;
- b) Articulating updated guidance for employees and supervisors regarding flex work arrangements;
- c) Encouraging expansion of flex work opportunities where appropriate;
- d) and developing a monitoring and reporting capability of flex work's effects

MANAGEMENT RESPONSE: Management agrees with the recommendation.

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HR has and continues to support departments in developing and implementing alternative work schedules that meet the operational needs of the department and individual employees. A number of departments in the City currently offer employees alternative and flex schedules.

During the COVID-19 pandemic, the City has been able to expand flex work opportunities to include large-scale telework. Once the City resumes normal operations, HR will lead an after-action assessment of telework approaches used during the event and evaluate the ability to incorporate telework into standard business practices.

TARGET IMPLEMENTATION DATE: June 2021.

RECOMMENDATION #6: HR should outline and formally document its own plan including goals, responsibilities, and organizational efforts it is undertaking internally to strengthen its emphasis on SHCM efforts.

City executive management should also consider the feasibility of maintaining support for, if not expanding the Citywide Supervisors Academy and Citywide Management Academy, which HR provides for departments across the City.

MANAGEMENT RESPONSE: Management agrees with the recommendation.

In the fall of 2018, the City of San Diego hired a new Human Resources Director with experience implementing SCHM in large organizations. The Human Resources Department has taken steps to modernize by taking a strategic approach to human resources management in order to balance the objectives and goals of management with the ever-changing needs of the organization, its employees, and the workforce.

In the summer of 2019, HR completed a department-wide restructure that went into effect in FY 2020. This new structure allows HR staff to develop the business acumen and strategic orientation to better assist departments and move from a transactional to transformational strategic organization. In January 2020, HR hired a new Deputy Director from the City's Performance and Analytics Department to assist HR in taking a more data-driven approach to human resource management.

HR will continue establishing a roadmap for implementing key strategic human resource best practices that will guide ongoing efforts. In January 2020, HR rolled out an expanded professional development program that includes the Public Management Certificate program, open to all city employees, not just supervisors. This broadens access and reaches a larger audience to encourage and provide employees with career growth and development opportunities. Management understands that a skilled workforce is a critical component of any successful organization and developing the future leaders of the City is imperative. HR is also improving the Citywide Management Academy to focus on adaptive leadership and proactive problem solving. In addition to these programs, HR is expanding professional development opportunities that include process improvement, data-informed decision making, and project management.

TARGET IMPLEMENTATION DATE: Partially implemented, will complete by June 2021.

RECOMMENDATION #7: HR and Personnel should jointly present an annual, publicly available workforce report to the City Council and Mayoral administration, updating City leadership by

identifying key City positions facing challenges related to recruitment, retention, employee satisfaction and other metrics.

- a) The report should include fundamental HCM metrics on turnover rates, quits rates, vacancy rates, employee satisfaction, and others, and should include benchmarking/comparative information, such as data from the Bureau of Labor Statistics, other large cities, SHRM, etc.
- b) Among other content, the report should identify:
 - i. A reasonable number – e.g. the 10 – job types – full-time employees regardless of classification status – with:
 - the highest rates of turnover and/or voluntary separations.
 - the highest rates of vacancies
 - a metric assessing employee recruiting, for example the number of “Qualified” vs. “Highly qualified” applicants
 - If they are not included among the job types above; the report should also include the results for Police officers and Firefighters as well.
 - ii. Some assessment of the differences, if any, between employees with Defined Contribution retirement plans compared to the rest of the City workforce, with respect to recruitment and retention patterns and/or other metrics (e.g. satisfaction or engagement)
- c) The workforce report should identify key elements of concern within the workforce, such as recruiting, development, satisfaction/engagement, and retention problems, an action plan to address these issues, and a timeline for completion.
- d) This workforce report should be required by a strong mechanism, such as a Council Policy or municipal code amendment

MANAGEMENT RESPONSE: Management partially agrees with the recommendation.

HR will work with the Personnel Department and other appropriate stakeholders to present a bi-annual workforce report to the City Council. Additionally, while we agree that many of the report elements listed in the recommendation should be included in the report, Management would reserve the right to determine which reporting elements best meet the needs of the Council and other stakeholders in the context of the financial resources necessary to produce the information. Finally, the recommendation states that the reporting requirement be set forth in a Council Policy, Municipal Code, or some other mechanism. Management will work with the various stakeholders to document the requirement for, content, and timing of the report.

TARGET IMPLEMENTATION DATE: By the end of Calendar Year 2021.

RECOMMENDATION #8: In order to aid in the production of the workforce report – as well as ongoing monitoring during the intervening periods, the departments of HR, Personnel, DoIT,

Finance, and Performance and Analytics should strengthen an interactive dashboard with monitoring and reporting capabilities for core SHCM metrics. Specifically:

- a) Convene a working group to solicit concerns about data reliability of the workforce data within the dashboard and issue a resulting action plan to address concerns raised.
- b) Expand the dashboard's historically available data to the maximum extent possible, not less than a period of 5 years
- c) Display additional key workforce metrics such as those listed in Exhibit 22. A metric on employee retention, including but not limited to turnover and quits rates should be a top priority.
- d) Ensure the dashboard is widely accessible to stakeholders such as analysts within each of their own departments, the City Auditor's office, and the Independent Budget Analyst, and interested individual operational departments that request access with a reasonable business purpose.
- e) The dashboard should have "break-out" and export capabilities for at least the following dimensions:
 - By Department
 - By Job classification
 - By Labor group
 - By Retirement plan type status

MANAGEMENT RESPONSE: Management agrees with the recommendation

HR has partnered with the Department of Information Technology (DoIT) to leverage existing platforms to capture data and move toward a data-driven approach to HR. In addition, HR has been collaborating with DoIT, Personnel Department, and Department of Finance to develop an interactive position detail dashboard to provide real-time data to department leadership, which is currently in production. Also in development are turnover and absence management dashboards.

TARGET IMPLEMENTATION DATE: By the end of Calendar Year 2021.

RECOMMENDATION #9: HR and Personnel should develop and monitor target goals or metrics for key aspects of the workforce, such as target turnover rates, quits rates, vacancy rates, etc. These should be formally documented, for example through incorporation into the City's total compensation strategy and annual workforce report.

MANAGEMENT RESPONSE: Management agrees with the recommendation.

In conjunction with the dashboard development, HR will develop targets for measures captured in the dashboard.

TARGET IMPLEMENTATION DATE: By the end of Calendar Year 2021.

RECOMMENDATION #10: The Human Resources Department should ensure the labor agreements currently being negotiated do not preclude the possibility of re-negotiation once the City has developed more robust workforce analytics, which may identify particular areas of concern that need to be immediately addressed.

MANAGEMENT RESPONSE: Management agrees with the recommendation.

When HR engages with recognized employee organizations and it is in the best interest of the City, HR will propose re-negotiation articles in MOUs in accordance with the Meyers-Millias-Brown Act. However, the specific recommendation may not be necessary due to the term of the negotiated agreement versus the time it takes to enhance workforce analytics.

TARGET IMPLEMENTATION DATE: On an as-needed basis.

RECOMMENDATION #11: Personnel should ensure that the summary analyses behind SSA adjustment requests are preserved and retained for a period of at least several years – in order to be able to substantiate decisions regarding Special Salary Adjustments.

MANAGEMENT RESPONSE: The Personnel Department will respond to this recommendation.

TARGET IMPLEMENTATION DATE: N/A

RECOMMENDATION #12: Personnel should reform the way they calculate the rationale behind whether SSAs are needed, to conform with standard methodology employed by the Bureau of Labor Statistics – i.e. including all employees who separated from City employment, as well as using a more accurate measure of the average workforce size for the period in question in their provided calculations of turnover rates and quits rates.

- a) If desired, Personnel may choose to continue to perform their current methodology as well, but the calculation should be referred to as something other than “turnover” rate. The more standard definition of quits and/or turnover – as defined by Bureau of Labor Statistics – should accompany SSA analyses brought before the Civil Service Commission and other forums.

MANAGEMENT RESPONSE: The Personnel Department will respond to this recommendation.

TARGET IMPLEMENTATION DATE: N/A

RECOMMENDATION #13: Special Salary Adjustments should consistently present and include recruitment and retention information to the Civil Service Commission and other stakeholders in terms of rates, as well as total numbers of employees.

MANAGEMENT RESPONSE: The Personnel Department will respond to this recommendation

TARGET IMPLEMENTATION DATE: N/A

RECOMMENDATION #14: Personnel, collaborating with HR, should proactively facilitate the SSA application process – identifying yearly which classifications have the highest recruitment and retention difficulties, City already does this communicating with affected department directors, and working with them to submit SSA adjustments as appropriate.

- a) This effort could be included as part of the annual workforce report from Recommendation 7

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MANAGEMENT RESPONSE: Management agrees with this recommendation. The Personnel Department will respond to this recommendation.

TARGET IMPLEMENTATION DATE: This is the current process and already implemented.



Jeff Sturak

Assistant Chief Operating Officer

cc: Aimee Faucett, Chief of Staff, Office of the Mayor
Kris Michell, Chief Operating Officer
Ronald H. Villa, Assistant Chief Operating Officer
Rolando Charvel, Chief Financial Officer
Robert Vacchi, Deputy Chief Operation Officer, Neighborhood Services
Almis Udrys, Deputy Chief of Staff, Office of the Mayor
Jessica Lawrence, Director of Policy and Council Affairs, Office of the Mayor
Matt Helm, Chief Compliance Officer
Julio Canizal, Director, Risk Management Department
Doug Edwards, Director, Personnel Department
Andy Hanau, Interim Assistant City Auditor, Office of the City Auditor




THE CITY OF SAN DIEGO

M E M O R A N D U M

DATE: April 9, 2020

TO: Kyle Elser, Interim City Auditor

FROM: Douglas Edwards, Personnel Director 

SUBJECT: Management Response to the Performance Audit of the City's Strategic Human Capital Management

The Personnel Department has reviewed the City Auditor's findings and recommendations in the Strategic Human Capital Management audit report. We appreciate you and your staff addressing and analyzing the City's Strategic Human Capital Management. Appropriately compensating City employees is critical to successful City management. The Personnel Department plays a key role in analyzing Classified employee salaries, recruiting and retention trends, and job duties.

City Charter Section 130 requires the City to establish a schedule of compensation for officers and employees in the Classified Service, which establishes a minimum and maximum for any grade and provide uniform compensation for like service. It shall be the duty of the Civil Service Commission to prepare and furnish to the Council, prior to the adoption of said ordinance, a report identifying classifications of employees in the Classified Service which merit special salary consideration because of recruitment or retention problems, changes in duties or responsibilities, or other special factors the Commission deems appropriate.

Each year, in accordance with City Charter Section 130, the Personnel Department conducts comprehensive salary studies and makes recommendations to the Civil Service Commission. The salary review process is efficient, accurate, and quantitatively analytical. During the Fiscal Year 2021 salary review process, Personnel staff completed 29 salary studies. These studies were completed at the request from Recognized Employee Organizations, Department Heads, and the Personnel Department.

Special salary adjustments originate through the process described above or through the meet and confer process. General salary increases originate through the meet and confer process. Special salary increases and general salary increases must be approved by the City Council. The City's overall compensation and benefits competitiveness have impacted all City employees in all occupational groups and categories. This is a labor market issue which historically has been addressed through the meet and confer process.

The Personnel Department is committed to continuous process improvements. Where necessary, improvements will be made to the special salary adjustment process. Moreover, where appropriate, the Personnel Department will work with City Administration to improve Strategic Human Capital Management. It is imperative that accurate information about the City's workforce, our most important asset, be available to decision makers. To that end, the Personnel Department looks forward to incorporating many of the recommendations presented in the audit report.

Our response to each of the 14 audit recommendations is documented below:

Recommendation #1:

HR, working collaboratively with Finance and Executive leadership, should document and articulate a Total Compensation Strategy, including but not limited to compensation and benefits components, levels, and market competitiveness to guide labor negotiations and set employee expectations with respect to compensation.

- a) Informed by HR's assessment efforts (see Recommendations 4 and 5), the strategy should include what role "non-economic" incentives can play – and how such incentives can help the City achieve its total compensation strategy.
- b) The City's strategy should include fiscal consideration and appropriate budgeting for how the City can financially achieve its total compensation goals.

Management Response: Not applicable to the Personnel Department.

Recommendation #2:

Until completion of a compensation strategy, the City should institute a policy to take prudent steps to forecast and plan for likely personnel expenditures based on BLS projected wage growth, inflation, City revenues, or another appropriate metric – in its outlooks and budgeting processes. Upon completion of a compensation strategy, fiscal outlooks should incorporate and align with the City's Total Compensation Strategy.

Management Response: Not applicable to the Personnel Department.

Recommendation #3:

HR and Personnel should build on their work to communicate to employees – for example via a periodic Benefits summary or Individual Benefits Statement – the total value of overall compensation and benefits in an attempt to mitigate employee dissatisfaction over their low base pay so that employees can periodically see the value of their total compensation and benefits.

Management Response: Agree.

The Personnel Department will work collaboratively with the Human Resources Department and other appropriate departments to evaluate additional methods for communicating the total value of compensation and benefits to City employees.

Target Implementation Date:

By the end of Calendar Year 2020.

Recommendation #4:

HR should document and implement a more data-driven methodology – such as a periodic survey like the Employee Satisfaction Survey – for assessing:

- a) How satisfied employees are with their level of compensation and benefits.
- b) Which forms of compensation or benefits are or would be most valued by employees.
- c) A comparison of these results to some sort of benchmarking criteria, such as results from the Federal Employee Viewpoint Survey, SHRM's annual Employee Benefits report, etc.

Such an assessment should place particular emphasis on which non-economic incentives are most valued by employees and best align with the City's total compensation strategy

Management Response: Not applicable to the Personnel Department.

Recommendation #5:

HR should build on its work regarding flex work arrangements, specifically:

- a) identifying how the City can minimize its risk and liability while offering flex work options;
- b) articulating updated guidance for employees and supervisors regarding flex work arrangements;
- c) encouraging expansion of flex work opportunities where appropriate;
- d) and developing a monitoring and reporting capability of flex work's effects.

Management Response: Not applicable to the Personnel Department.

Recommendation #6:

HR should outline and formally document its own plan including goals, responsibilities, and organizational efforts it is undertaking internally to strengthen its emphasis on SHCM efforts.

City executive management should also consider the feasibility of maintaining support for, if not expanding the Citywide Supervisors Academy and Citywide Management Academy, which HR provides for departments across the City.

Management Response: Not applicable to the Personnel Department.

Recommendation #7:

HR and Personnel should jointly present an annual, publicly available workforce report to the City Council and Mayoral administration, updating City leadership by identifying key City positions facing challenges related to recruitment, retention, employee satisfaction and other metrics.

- a) The report should include fundamental HCM metrics on turnover rates, quits rates, vacancy rates, employee satisfaction, and others, and should include benchmarking/comparative information, such as data from the Bureau of Labor Statistics, other large cities, SHRM, etc.

- b) Among other content, the report should identify:
 - i. A reasonable number – e.g. the 10 – job types – full-time employees regardless of classification status – with:
 - o the highest rates of turnover and/or voluntary separations.
 - o the highest rates of vacancies
 - o a metric assessing employee recruiting, for example the number of “Qualified” vs. “Highly qualified” applicants
 - o If they are not included among the job types above, the report should also include the results for Police officers and Firefighters as well.
 - ii. Some assessment of the differences, if any, between employees with Defined Contribution retirement plans compared to the rest of the City workforce, with respect to recruitment and retention patterns and/or other metrics (e.g. satisfaction or engagement)
- c) The workforce report should identify key elements of concern within the workforce, such as recruiting, development, satisfaction/engagement, and retention problems, an action plan to address these issues, and a timeline for completion.
- d) This workforce report should be required by a strong mechanism, such as a Council Policy or municipal code amendment.

Management Response: Agree.

The Personnel Department will work with the Human Resources Department and other appropriate departments to present an annual workforce report to the City Council. The content of the report shall be determined collaboratively with these departments.

Target Implementation Date:

By the end of Calendar Year 2021.

Recommendation #8:

In order to aid in the production of the workforce report – as well as ongoing monitoring during the intervening periods, the departments of HR, Personnel, DoIT, Finance, and Performance and Analytics should strengthen an interactive dashboard with monitoring and reporting capabilities for core SHCM metrics. Specifically:

- a) Convene a working group to solicit concerns about data reliability of the workforce data within the dashboard and issue a resulting action plan to address concerns raised.
- b) Expand the dashboard’s historically available data to the maximum extent possible, not less than a period of 5 years.
- c) Display additional key workforce metrics such as those listed in Exhibit 22. A metric on employee retention, including but not limited to turnover and quits rates should be a top priority.

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- d) Ensure the dashboard is widely accessible to stakeholders such as analysts within each of their own departments, the City Auditor's office, and the Independent Budget Analyst, and interested individual operational departments that request access with a reasonable business purpose.
- e) The dashboard should have "break-out" and export capabilities for at least the following dimensions:
 - o By Department
 - o By Job classification
 - o By Labor group
 - o By Retirement plan type status

Management Response: Agree.

The Personnel Department will work collaboratively with City Administration to continue strengthening the City's interactive Strategic Human Capital Management dashboard.

Target Implementation Date:

By the end of Calendar Year 2021.

Recommendation #9:

HR and Personnel should develop and monitor target goals or metrics for key aspects of the workforce, such as target turnover rates, quits rates, vacancy rates, etc. These should be formally documented, for example through incorporation into the City's total compensation strategy and annual workforce report.

Management Response: Partially agree.

The Personnel Department will work collaboratively with City Administration to analyze, monitor, and report metrics related to turnover, quits, and vacancy rates. Developing target goals and policies related to Citywide total compensation, turnover, quits, and vacancy rates is under the purview of City Administration and the City Council.

Target Implementation Date:

By the end of Calendar Year 2021.

Recommendation #10:

The Human Resources Department should ensure the labor agreements currently being negotiated do not preclude the possibility of re-negotiation once the City has developed more robust workforce analytics, which may identify particular areas of concern that need to be immediately addressed.

Management Response: Not applicable to the Personnel Department.

Recommendation #11:

Personnel should ensure that the summary analyses behind SSA adjustment requests are preserved and retained for a period of at least several years – in order to be able to substantiate decisions regarding Special Salary Adjustments.

Management Response: Agree

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The Personnel Department will continue to comply with the City's Records Disposition Schedule. The Personnel Department will retain summary analyses for two years following the presentation of a salary study to the Civil Service Commission.

Target Implementation Date:

Already being implemented.

Recommendation #12:

Personnel should reform the way they calculate the rationale behind whether SSAs are needed, to conform with standard methodology employed by the Bureau of Labor Statistics – i.e. including all employees who separated from City employment, as well as using a more accurate measure of the average workforce size for the period in question in their provided calculations of turnover rates and quits rates.

- a) If desired, Personnel may choose to continue to perform their current methodology as well, but the calculation should be referred to as something other than “turnover” rate. The more standard definition of quits and/or turnover – as defined by Bureau of Labor Statistics – should accompany SSA analyses brought before the Civil Service Commission and other forums.

Management Response: Partially agree.

Salary studies may include a variety of analyses performed by Personnel Department staff. Recruiting, turnover, and changes in duties are frequently analyzed. Recommendation 12 suggests that Personnel Department staff should analyze all employee separations from the City. The Personnel Department currently tracks all separations as defined by the Bureau of Labor Statistics. However, for good reason, staff analyzes only two separation reasons (i.e., employees who quit to take a similar job and/or employees who quit for higher pay in a similar job) to determine if a classification, or a classification series, is experiencing a turnover problem. If a problem exists, then a recommendation is made to the Civil Service Commission to grant a special salary adjustment. Including all the reasons employees quit, (e.g., relocation, illness, family/personal, education) would likely capture reasons that are unrelated to salary, which could result in an unnecessary recommendation for a special salary adjustment.

The Personnel Department will modify the way average workforce size is calculated for salary studies. Specifically, the number of selected employees at the beginning of the evaluation period will be added to the number of selected employees at the end of the evaluation period. Staff will divide the sum by two to establish the average workforce size.

Target Implementation Date:

By the end of Calendar Year 2020.

Recommendation #13:

Special Salary Adjustments should consistently present and include recruitment and retention information to the Civil Service Commission and other stakeholders in terms of rates, as well as total numbers of employees.

Management Response: Agree.

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The Personnel Department will continue to present and include recruitment and retention information to the Civil Service Commission when appropriate. Turnover information will be presented and in terms of rates, as well as total number of employees.

Target Implementation Date:

By the end of Calendar Year 2020.

Recommendation #14:

Personnel, collaborating with HR, should proactively facilitate the SSA application process - identifying yearly which classifications have the highest recruitment and retention difficulties, communicating with affected department directors, and working with them to submit SSA adjustments as appropriate.

- a) This effort could be included as part of the annual workforce report from Recommendation 7

Management Response: Partially agree.

The Personnel Department will work collaboratively with the Human Resources Department and other appropriate departments to present an annual workforce report to the City Council. Recognized Employee Organizations and Department Heads will continue to have the ability to submit special salary adjustment requests. Each year, in accordance with City Charter Section 130, the Personnel Department will continue to conduct comprehensive salary studies and make recommendations to the Civil Service Commission.

Target Implementation Date:

By the end of Calendar Year 2021.