Managerial Summary

A. Objectives, Scope, and Methodology

We have completed our audit of Selected City Hiring and Competitiveness Issues for the period July 1, 2019 to December 31, 2019. This audit has several purposes: Evaluate the City's employee application process and methodology; Review of the time required to hire new employees; and Compare requirements, salaries, and benefits for selected key positions in Virginia's largest cities. While we did compare positions that appeared to be similar, we did not attempt to evaluate the value of positions based upon job descriptions on a case by case basis.

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 conclusion 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.

The City of Chesapeake (City) had budgeted 3,926.50 full-time equivalent (FTE) employees for fiscal year (FY) 2020. Police, Fire, and Sheriff's Office had 1,487.90 FTEs. As of FY 2020 there were 54 pay grades with 587 positions.

To conduct this audit, we interviewed large City departments and analyzed the time they indicated was utilized for a normal hiring process, and also time utilized during a more complicated process. We also compared the mean salary for selected City positions against salaries for comparable positions in Virginia largest cities. Finally, we reviewed how far employees had advanced in their pay ranges relative to the full range.

Major Observations and Conclusions

We generally found that the City's application and hiring process was reasonable under most normal circumstances, although we did identify some limited challenges, However, We did note that City employee salaries tended to be clustered at the lower ends of the City's pay ranges. As a result, their salaries were less competitive than their pay ranges suggested. Also, while the City was generally competitive with its peer cities in Virginia relative to pay ranges taken as a whole, it was less competitive on minimum salaries for certain positions than some of those. Finally, City Departments identified a number of other hiring and competitiveness issues during our audit. These issues included delays in getting classifications updated, screening challenges, and hiring for some seasonal employees.

This report, in draft, was provided to management for review and response. Their comments have been considered in the preparation of this report. These comments have been included in the Managerial Summary, the Audit Report, and Appendix A. Management, Department Heads, Fiscal Administrators, Payroll Clerks, Information Technology (IT), and Finance were very helpful throughout the course of this audit. We appreciated their courtesy and cooperation on this assignment.

B. Performance Information

1. City Hiring and Compensation Practices

The City's Fiscal Year 2020 Human Resources Classification and Compensation Plan contained four pay scales for the following groups of employees: public safety sworn non-management employees, public safety sworn management employees, general employees, and executive employees."

The City provided two mechanisms for compensation adjustments citywide for general employees:

- As part of the annual budget process, the City Manager proposed a wage adjustment of a determined percentage with a minimum floor and then submitted the proposal to City Council for approval. A minimum floor of $1,000 meant that an employee earning less than $33,334 would receive $1,000 for a 3% wage increase. Most of the wage adjustments were effective after the start of the fiscal year. At least one wage adjustment was effective several months after July 1. The State had made adjustments to the Virginia Retirement System increasing the employee obligation to 5% over several years for Plan 1 and 2 participants. The City made wage adjustments to offset those increases.

- Another mechanism was adjustment to the pay structure by adjustment of the minimum, mid-point, and maximum pay ranges. These adjustments could either be lower or could match the City Manager's proposed wage adjustment. When these adjustments were lower, existing employees gained some salary separation from newly hired employees. However, when the adjustments matched, salary compression was often the result.

2. CLICK and Screening

The City used a software system called **C**areer **L**ink **I**n the City of **C**hesapea**K**e (CLICK) to advertise and accept applications, resumes, and cover letters. In 2019 and 2020, the City worked with the vendor to update the system. The new system was expected to go live in early 2020.

The existing CLICK accepted resumes and cover letters, but Human Resources used the online application as the main basis for screening. While there were instructions stating that applications were the basis for screening, the lack of emphasis on resumes was a source of concern for a number of City departmental users.

With the upgraded CLICK system, all existing applications were scheduled for deletion. The predetermined process was for all employees to submit new applications. This process should ensure that the skills, experience, and duties were made current to the "go live" date. Also, with the upgraded CLICK, resumes, cover letters, and LinkedIn data were expected to be captured and used for screening.

3. Hiring Process Timeline

The actual City hiring process included approximately 14 steps beginning with the anticipation of a job vacancy and ending with bringing a new employee onboard. Due to concerns we had heard about delays in the process, we reviewed it to see whether or not we could identify structural problems. However, we generally found that the process was timely in most instances, with exceptions caused by special situations or circumstances, such as disciplinary actions. The primary challenges we heard from departments appeared to be related to the screening process issues discussed in the previous section.

4. Incentives

Neighboring cities including Virginia Beach, Norfolk, and Newport News offered various employee incentives and supplements to assist with their recruitment and retention efforts. Some of these efforts are noted below.

a. Virginia Beach

For FY 2020, Virginia Beach was implementing a number of programs to enhance employee retention. For public safety employees, they were providing longevity increases. For general employees, Virginia Beach was insuring that supervisors who had been in their positions at least 3 years were brought to the midpoint of their ranges:

b. Norfolk

The City of Norfolk offered a number of supplemental pay incentives for employees included in our study. For general employees such as Auto Mechanics and Clinicians, they offered supplemental pay for certification and Virginia Independent Clinical Assessment Program (VICAP) clinical assessments, respectively. For public safety employees such as Fire and Police, they offered assignment supplements.

c. Newport News

Incentives for Newport News employees provided allowances for a number of public safety related assignments, and also provided some allowance for auto mechanics as well.

5. Pay Studies in Other localities

We reviewed to other relatively recent pay studies to determine whether the issues addressed in them were comparable to the issues we were addressing. These studies were done in Prince William County, Virginia, and Durham, North Carolina.

a. Prince William County Study:

In 2016, Prince William County commissioned PFM Consulting Group, LLC to conduct a Public Safety Retention and Recruitment Study. According to the study,

"Insights from focus groups and employee surveys indicate that compensation represents the principal factor driving Prince William County public safety employee attrition. While the particulars vary – sometimes considerably – across each public safety employee group, three general conditions contribute to Prince William County public safety employee dissatisfaction around compensation:
- Pay compression, where employees with more tenure or a higher rank earn less base compensation (or insufficient differentials) relative to less tenured employees.
- Lower pay levels for mid-career employees relative to other regional employers.
- An inability to project future earnings, where employees cannot clearly estimate earnings five, ten, or fifteen years into the future."

b. Durham, NC Study

The City of Durham, North Carolina commissioned a 2018 Classification and Compensation Study by Gallagher Insurance, Risk Management, and Consulting. The firm surveyed 29 public organizations with 22 responses. Included in the report was the summary below indicating the number of job position matches to existing Durham job positions, the market salary average for the matched positions, and the average salary for matched Durham job positions. The survey information indicated that 72.7% of the responding cities (16 of 22) had higher market averages for matched job descriptions than Chesapeake.

C. Competitiveness and Hiring Issues

We generally found that the City's application and hiring process was reasonable under most normal circumstances, although we did identify some limited challenges, However, We did note that City employee salaries tended to be clustered at the lower ends of the City's pay ranges. As a result, their salaries were less competitive than their pay ranges suggested. Also, while the City was generally competitive with its peer cities in Virginia relative to pay ranges taken as a whole, it was less competitive on minimum salaries for certain positions than some of those. Finally, City departments identified a number of other hiring and competitiveness issues during our audit. These issues included delays in getting classifications updated, screening challenges, and hiring for some seasonal employees.

1. Salary Compression.

Finding – City employee salaries tended to be clustered at the lower ends of the City's pay ranges. As a result, their salaries were less competitive than their pay ranges suggested.

Recommendation – The City should consider steps to reduce clustering at the lower ends of its pay ranges to become more competitive.

City Response – There are several factors that contribute to employee salaries being clustered at the lower end of the pay ranges, some of which were mentioned in the audit. Although City policy has contained provisions allowing departments to hire candidates above the minimum of the pay range since at least 2008, in practice, many departments infrequently did so until 2016 when HR began strongly encouraging departments to consider it in order to increase the City's competitiveness. In addition, when employees are promoted, their salary will be at a lower point within their new pay range than they were in their prior pay range. Finally, the need to increase the City's pay structure in order to ensure pay ranges

stay competitive within the region, along with modest general wage increases, have limited movement of salaries within the pay ranges.

Human Resources will work with the City Manager's office to address this concern. (Note: the full text of their response is included in the audit report.)

2. <u>Pay Range Competitiveness</u>

Finding – The City was generally competitive with its peer cities in Virginia relative to pay ranges taken as a whole. However, it was less competitive on minimum salaries for certain positions than some of those.

Recommendation – The City should take steps to address salary issue for positions where it is less competitive.

City Response – HR regularly evaluates the competitiveness of the City's pay structure and job classifications. HR monitors the pay structure movement in surrounding cities and makes recommendations for adjustments as needed to ensure the City's pay scales remain competitive. In addition, HR staff regularly review market data on benchmark job classifications and identify certain job classifications for a market review each year. Benchmark jobs are those that have been identified as having comparable matches in most other cities in the Hampton Roads region. There are currently 587 job classifications in the City of Chesapeake including both general employee and public safety job titles. Of those, 266 are considered regional benchmark jobs. Jobs classifications are identified for review based on factors such as the number of incumbents, difficulty recruiting candidates, and difficulty retaining employees in the identified jobs.

With the resources available, HR is adequately monitoring the competitiveness of the City's job classifications. The prior recommendations related to increasing funding for the merit pay program and hiring an external consultant to evaluate other pay-related proposals also apply to this finding. Human Resources will continue to regularly evaluate the competitiveness of the City's pay structure and will work with the City Manager's office to address this concern. **(Note: the full text of their response is included in the audit report.)**

3. <u>Other Hiring and Competitiveness issues</u>

Finding – City Departments identified a number of other hiring and competitiveness issues during our audit. These issues included delays in getting classifications updated, screening challenges, and some seasonal employee classifications.

Recommendation – The City should encourage the departments and Human Resources to work together to resolve these challenges.

Response – The Recruitment, Training, Retention and Compensation (RTRC) committee was established approximately two years ago with the purpose of developing and implementing ideas and tools that enhance recruitment, retention, training, and compensation for City employees. The RTRC committee is currently researching and evaluating different methodologies for incentivizing new and existing employees. It is also considering an employee referral bonus program for present employees to aid with the recruitment of candidates to fill positions that are identified by HR, in conjunction with City departments, as difficult to recruit or retain. In addition, HR has developed a comprehensive recruiting, interviewing, selection, and onboarding (RISO) class designed for all employees involved in the hiring process to provide instruction on the process from beginning to end. The class is now offered every month.

HR will continue to work with departments to resolve the aforementioned challenges and encourages departmental feedback on other innovative solutions. **(Note: the full text of their response is included in the audit report.)**