VACANT POSITIONS:
Few positions vacant long-term, but enhanced oversight can reduce risk

May 2014

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ENSURING OPEN AND
ACCOUNTABLE GOVERNMENT

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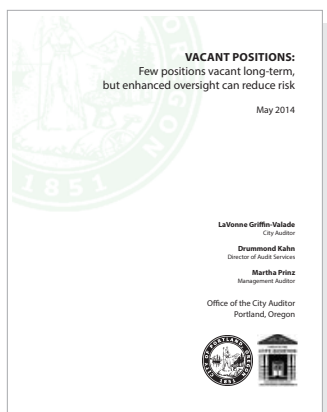**LaVonne Griffin-Valade**
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May 1, 2014

TO: Mayor Charlie Hales
Commissioner Nick Fish
Commissioner Amanda Fritz
Commissioner Steve Novick
Commissioner Dan Saltzman
Fred Miller, Interim Chief Administrative Officer
Andrew Scott, Budget Director

SUBJECT: Audit Report – *Vacant Positions: Few positions vacant long-term, but enhanced oversight can reduce risk* (Report #444)

The attached report contains the results of our audit of vacant position management. We initiated this review after City officials raised questions about the management of vacant positions. The purpose of the audit was to assess whether large numbers of vacant positions were held open for extended periods and how those vacancies were being monitored.

We found that overall the City did not have a large number of vacant positions, nor did those positions generally remain open for extended periods. Although the bureaus we sampled mostly appeared to closely monitor vacancies, we found that the City as a whole could do a better job of managing and tracking vacancies.

We recommend that the Chief Administrative Officer, City Budget Director, and Human Resources Director take a number of actions to improve transparency and ensure maximum stewardship over limited resources. Specifically, we ask them to put a process in place to determine if City bureaus adequately track and limit vacancies, develop and regularly distribute reports on length and costs of vacancies to elected officials and bureau directors, and develop a Citywide policy stating the need for bureaus to limit vacant positions. We further recommend that the City Council direct bureaus to report at least annually on the status of vacancies open over six months.

We ask that the Chief Administrative Officer, Budget Director, and Director of Human Resources provide us with a status report in one year detailing steps taken to address the recommendations in this report.

We very much appreciate the cooperation and assistance we received from management and staff as we conducted this audit.

LaVonne Griffin-Valade
City Auditor

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Attachment

VACANT POSITIONS:
Few positions vacant long-term,
but enhanced oversight can reduce risk

Summary

In the City of Portland, over 5,000 permanent employees provide public services, but some positions are vacant at times for a variety of reasons. We conducted this audit to determine if the City had large numbers of vacant positions over a long period of time, to analyze how selected bureaus are monitoring vacancies when they occur, and to identify the reasons for long-standing vacancies.

We found that the City does not have large numbers of vacant positions, and that vacant positions are generally not held open for inappropriately long amounts of time. In many cases bureaus appear to closely monitor vacancies; however, the City as a whole could do a better job monitoring vacancies and identifying why some positions are vacant for lengthy periods of time.

We make four recommendations for the City to improve its oversight of position vacancies, including clarifying City intent to reduce vacancies, and better tracking and reporting vacant position lengths, reasons, and costs.

Background

Vacant positions are created when an employee leaves a position, or when an organization creates a new position that needs to be filled. Like all employers, the City of Portland has employees who join or leave the organization on an ongoing basis. As a large employer, the City is likely to have some vacancies on any given day of the year.

Hiring new employees can be time-consuming for a variety of reasons, especially in the public sector, where there are many policies and laws to follow, as well as positions that require specialized skills or training. Positions may also remain vacant for other reasons, such as evaluating whether to make an operational change that might involve a revised job description, or because an employer anticipates budget reductions.

Concerns about government vacancies are raised periodically

Although hiring and training new employees takes time, Portland and other governments may learn of concerns about whether the percentage of vacant positions (the vacancy rate) is too high, and whether it takes too long to fill openings (the vacancy length).

When concerns are raised, they tend to be related to transparency and accountability. If a government needs a certain number of employees to deliver services, it should ensure that it makes a good-faith effort to hire that number of employees, or modifies the number of employees it says it needs.

Funding designated for employee salaries and benefits may be available to governmental entities whether or not positions are filled. This may lead to questions about whether positions are purposely kept vacant to free up funding for other uses. When positions are deliberately held vacant, or remain vacant despite efforts to fill them, funding that would have paid the positions' salaries and benefits (called "salary savings," or "vacancy savings") may be used by the government to cover other costs. Vacancy savings are sometimes used to help fund programs in the government's budget that may have been underfunded, but there is more transparency and accountability when programs are budgeted at the appropriate level in the first place.

Finally, there are cases in which governments are criticized for giving the impression that they have laid off employees, when in fact they eliminated vacancies. This is also an issue of transparency.

Efforts to reduce or eliminate vacancies are ongoing, but do not always work as intended

Oregon

In an attempt to minimize vacant positions, some governments have proposed or passed laws or policies, with mixed results. In 2011, an Oregon legislator sponsored a bill that would have required State agencies to report all vacant positions open longer than six months and to eliminate those positions unless agency officials could make a convincing case to keep them open. The legislator expressed the view that too many positions were vacant for too long and that state agencies were using the positions as "slush funds" for other operational needs.

California

A law similar to the one proposed in Oregon was passed in California, and was also designed to abolish positions vacant for six months or longer. However, a state-funded group that performs non-partisan legislative analysis in California found that the law eliminated only a small number of vacancies, and that it created administrative work to correct agencies' vacancy records and to process the large number of exception requests submitted by state agencies. The group recommended repealing the law, saying it should be replaced with a process to undertake ongoing and systematic reviews of state vacancies as part of the budget process. The group also recommended that audits be conducted when those reviews appear to be warranted.

Montana

In another example, an audit in Montana found that the requirement to capture vacancy savings from state agencies each year contributed to increases in vacancy rates. Auditors concluded that agencies reacted to vacancy savings mandates by keeping more positions vacant longer to pay for those mandates, rather than eliminating the positions from their budget. They recommended that Montana adopt a policy more like California's.

Honolulu

At the local level, the City of Honolulu recently adopted a new policy requiring that funds associated with vacant positions be held in a single account. These funds are to be released only after a new hire is approved by the City's managing director.

Salaries and benefits are funded using a variety of sources, and funds are mostly available when the position is budgeted

Funding for City services comes from a variety of sources, including property taxes, business license fees, and utility and other fees. Depending on the City bureau, employee salaries and benefits are paid with revenue from some combination of these sources.

Once a position is approved by the City Council and appears in the City's budget, the funding to pay for that position's salary and benefits is often available to the relevant bureau at the start of the fiscal year. As long as that funding stays within the broad program spending category of personnel services, it can also be used for other program

purposes, which gives bureaus some discretion in meeting their operational needs. At fee-dependent bureaus like Environmental Services or Water, the bureaus have spending authority, but do not have all the funding in hand to pay for positions until revenue is received from ratepayers, which takes place throughout the fiscal year.

A "compensation set-aside" keeps bureaus slightly below projected funding needs each fiscal year

Each fiscal year, the City withholds funds from bureaus to pay for employees' anticipated cost of living adjustments (COLAs) and health care benefit increases. These funds, once withheld, become the City's compensation set-aside. The set-aside has the effect of starting each bureau with a personnel services budget that may fall short of meeting their full needs in the coming year, especially if a bureau is close to achieving full staffing. Bureaus are expected to use normal attrition and vacancy savings to cover these costs during the fiscal year. In general, the City retains set-aside funds in the General Fund for the General Fund bureaus, and other bureaus are expected to set aside appropriate amounts in their own budgets.

As the fiscal year progresses, a bureau can submit a request to the City Budget Office (CBO) to recoup all or part of their set-aside money. According to the CBO, City Council is not obligated to grant these requests. However, the CBO typically recommends that Council appropriate those funds as long as the shortage is in the personnel services area of the bureau's budget, and the bureau did not use personnel services funds to cover non-personnel services expenses.

City implemented a vacancy savings policy in FY 2012-13 for one year only, and a hiring freeze was in place previously

In Fiscal Year (FY) 2012-13, most bureaus were also asked to give the General Fund's compensation set-aside (or for non General Fund bureaus, their bureau's contingency fund) the equivalent of three months of salary and benefits for new and existing permanent position vacancies during that fiscal year. This directive was known as the Vacancy Savings Reduction Package (VSRP), and it was implemented to fill an anticipated budget gap of approximately $2 million.

According to City documents, the intent of capturing vacancy savings this way rather than mandating that each position remain vacant for three months was to mitigate some of the negative impacts on bureaus' ability to hire and meet their business needs if they wanted

to do so. In other words, bureaus could continue to fill vacancies as they saw fit, but with the understanding that they would still be required to set aside VSRP funds for each eligible vacancy. In addition, filling a vacancy immediately might impact a bureau's chances of receiving compensation set-aside money later in the year.

Due to budget concerns, the City implemented both hiring slow-downs and hiring freezes at various times from FY 2008-09 through FY 2011-12. According to the Office of Management and Finance, this had an impact on both the number of positions left vacant as well as the timing of filling positions when exceptions were granted.

Audit Results

Because the services they provide are for the benefit of the public and are paid for by taxpayers, public entities should be managed with as much transparency and accountability as possible. More specifically, the City's Comprehensive Financial Management Policies and Budget Policies state that the City is accountable to the community for the use of public dollars, and municipal resources are to be used wisely to ensure adequate funding for public services and to make prudent use of public resources.

We analyzed the rate and length of the City's vacant positions from the standpoint of transparency and accountability. We found that bureaus have many valid reasons for vacancies, including meeting the requirements of City policies and hiring practices. However, individual vacancies occur for different reasons, and some may be more or less avoidable than others.

On a sample test date in each of the past three fiscal years (January 31), we found a fairly low vacancy rate. However, it is possible that the low rates we found were partly due to the difficult economic times the City has faced, which means there is a risk that vacancy rates may go up when the economy improves.

We also found that while there may be times when it is appropriate for bureaus to meet programmatic needs using vacant position funds, the City has not consistently monitored how bureaus manage vacancies, nor does it have assurance about how vacancy savings are being used. If the City's revenue prospects improve, there may be less pressure on bureaus to make budget reductions by eliminating vacancies.

City's vacancy rate averaged five percent in each of three most recent years on a "snapshot" date, and appeared reasonable

Staff budgets are typically a large component of bureau budgets. However, as long as the personnel services budget category is in line with budgeted amounts, bureaus generally have flexibility to spend within the category. While there are benefits to allowing bureau directors and managers a certain amount of latitude in running their bureaus, it can make it difficult to determine whether bureau spending matches the intentions of elected officials. However, CBO staff told us that they use monthly financial monitoring reports to track variability in personnel services spending.

Looking at the same day in each of the three years we studied, the number of vacancies on our sample date did not fluctuate widely and was small in proportion to the number of total positions, as shown in Figure 1.

Figure 1   **Vacant positions, as share of total positions** (January 31)
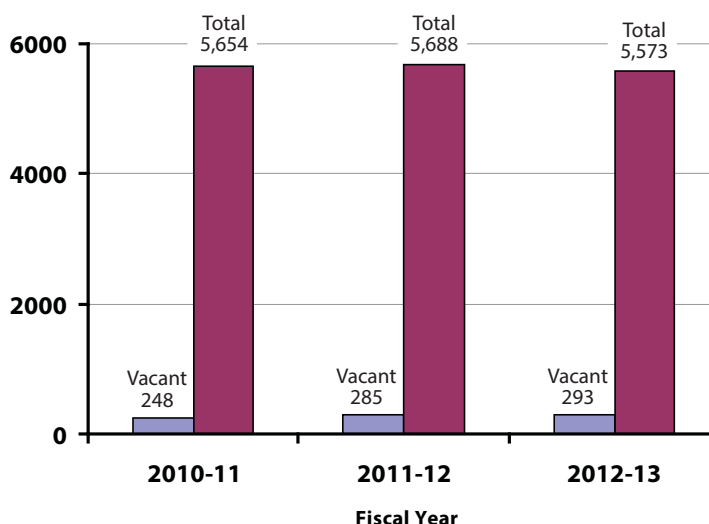
Source: Audit Services Division analysis of Citywide data

Note: Data includes permanent, non-limited term positions only. Totals as of Adopted Budget.

According to the City's Bureau of Human Resources (BHR), the City has not established targets for vacancy rate or vacancy length. BHR managers also told us that they were not aware of any industry-wide standard for vacancy rate or length, and our literature search also did not identify benchmarks. The California Legislative Analyst's Office

has noted that vacancy rates for most of their departments might be expected to be in the range of 5 to 10 percent at any given time.

A City Budget Office staff member told us that, in general, City bureaus may have vacancy rates in the range of two to three percent, due to the typical comings and goings of employees. Large bureaus in particular are generally not fully staffed at any given point in time.

The Citywide vacancy rate did not vary considerably for our sample date of January 31 in each of the past three years. In FY 2010-11, the rate was 4.4 percent; the rate was 5 percent in FY 2011-12, and 5.3 percent in FY 2012-13 (see Figure 2).

Figure 2   **Percent of positions vacant on Jan. 31** (permanent, regular)
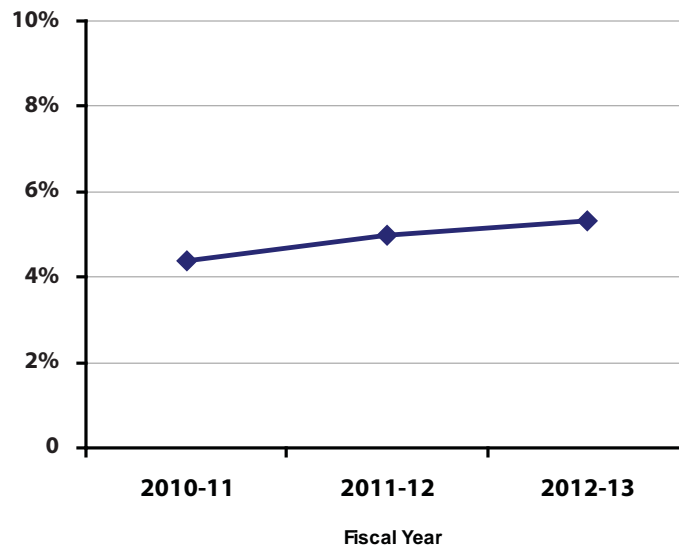
Source: Audit Services Division analysis of Citywide data

The vacancy rate for FY 2012-13 might have been higher because some of the vacancies from the sample date are yet to be filled, whereas a vacancy from the earlier years was more likely to have been resolved by the time of our audit work. We also note that this data is only as of the sample date for each year, so there may be different results for different dates of the year.

The majority of City vacant positions had been open six months or longer

The data we used to analyze the length of vacancies was not ideal for such analysis, but a conservative interpretation of the data shows that for the same sample dates in FY 2010-11 and FY 2011-12, almost two-thirds of the City's vacant positions had been open for more than six months.

Almost twenty percent of vacant positions on that same sample date were difficult to categorize with the available data, but may have been open for long periods of time as well. These vacant positions were flagged as both vacant on our sample date, and also vacant on the date the data was extracted from SAP. That means that each of those vacancies could have either been vacant for the entire time between the sample date and the extraction date, or could have been vacant on the sample date, filled, and then vacated again before the data extraction date. Finally, an additional twenty percent of vacancies were filled in six months or less for FY 2010-11 and FY 2011-12.

The data available for FY 2012-13, while less reliable overall than the earlier two years, show a higher percentage of positions – around one-third – that were filled in six months or less, as compared to the prior two years. According to some bureau managers and staff we spoke with, it can take several months to fill City positions. Our length-of-vacancy results are shown in Figure 3.

Figure 3   **Approximate length of vacancies on January 31**
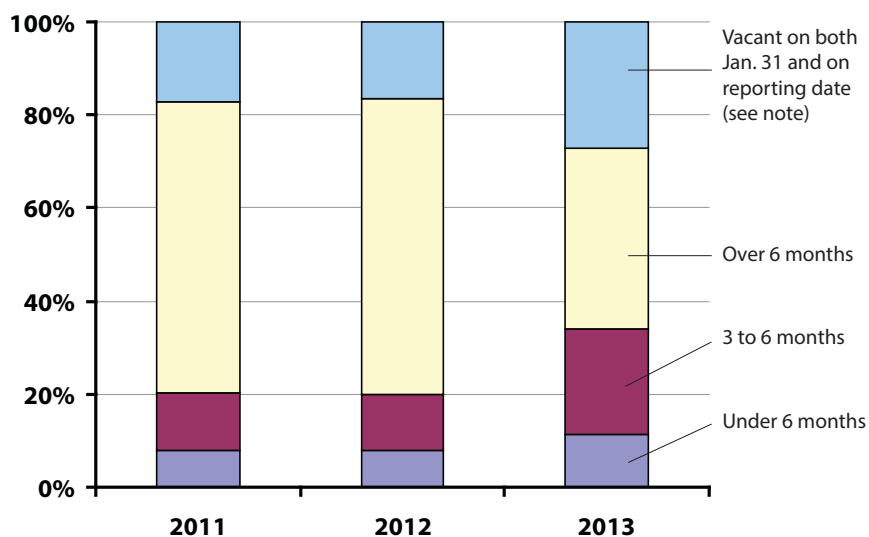
Source: Audit Services Division analysis of Citywide data

Note: Data is considered approximate because the data source provides a "snapshot" of a particular day and may not reflect all activity related to each vacant position. Vacancies labeled "vacant on both Jan. 31 and on reporting date" were vacant on January 31 of the year and were also vacant on the date that data was extracted from SAP (4/17/13 for 2011 and 2012 data and 11/18/13 for 2013 data).

City has improved its understanding of vacancies, but lacks overall approach

Although the bureaus whose practices we reviewed all told us they track their vacancies and understand them well, the City does not have a consistent and overarching approach to tracking and limiting vacancies. In addition, existing reports are not easy to use on a routine basis for comprehensive information, and the City does not have a policy stating the need to minimize vacancies.

Some of the City's budget analysts reported that the VSRP helped them increase their understanding of vacancies and prompted them to do additional follow-up with bureaus when necessary. The CBO also told us it helped improve their understanding of how to use SAP for vacancy reporting, which will be useful going forward as the City continues to clarify its approach to vacancies.

While the compensation set-aside is not technically a vacant position policy, in some ways it works like one because it is linked to the understanding that most bureaus will not need all their personnel services funding since they will have vacancies at various times in the year. According to the City Economist, only a handful of bureaus request their compensation set-aside money, which could indicate that the "squeeze" of the set-aside has in many cases been manageable for bureaus.

However, the Director of the Bureau of Human Resources expressed concerns that the compensation set-aside actually encourages bureaus to hold vacancies open in order to help pay for the shortfall created by the set-aside, and the reports we reviewed from California and Montana also noted that these types of set-asides can have that effect.

City positions remain vacant for a variety of reasons, with some common themes across bureaus

We reviewed six City bureaus' approaches to managing and tracking vacancies. Through our interviews, we gleaned information on both the human resources and the financial aspects of tracking and managing vacant positions at the bureau level.

We analyzed several bureaus in order to capture a range of factors. We included the Police Bureau, Parks and Recreation, Water Bureau, Bureau of Environmental Services, the Bureau of Internal Business Services, and the Bureau of Technology Services. We also interviewed the City Budget Office staff assigned to the bureaus. We found simi-

larities across bureaus, as well as some differences, some of which were attributable to differences in bureaus' operations.

To different degrees, the bureau staff and managers we interviewed told us that they monitor vacancies. In some cases, there were processes and reports in place. In other cases, there was less formality to the tracking and oversight, but bureau staff members were confident that they had a good handle on vacancies. Some of the differences and similarities in approaches are described below.

Bureau of Environmental Services
Fee-dependent bureaus such as the Bureau of Environmental Services (BES) have the authority to fill all their budgeted positions, but unlike General Fund bureaus, do not have revenue in hand until fees are received over the course of the year. As a result, even when expenditures are trending within budget, the Bureau may have a revenue stream that is less than what was forecasted.

According to BES, there have been times when revenues have either been below, or the Bureau was expecting them to be below, initial projections, leading BES to slow or reduce spending below budgeted staffing levels, resulting in positions being held vacant for longer periods.

The risk in this approach to cost control became apparent when the Bureau's City Commissioner directed BES to cut those positions. Managers told us they are now more likely to reduce programs than hold positions vacant and risk losing the positions, and tend to either fill positions or abolish them.

BES indicated that they take a number of steps to monitor vacancies. They have a staffing review committee make recommendations to the Bureau Director on whether positions should be filled or not. If the committee recommends that a position not be filled, the position may be held open, but only for a limited time. When managers want to fill a vacancy, they must go through the Committee and be approved by the Bureau Director. Managers are reminded to keep up efforts to fill vacancies, and the Bureau Director will get involved if deemed necessary.

BES provided us with two sample reports. According to the Bureau, they review a vacancy spreadsheet each week to monitor the status of current vacancies. The spreadsheet lists various status items, including whether the recruitment has been posted and whether the manager is conducting interviews. Another report reflects a database used to track all requests from managers to fill positions, allowing BES to track activity related to any vacancy. For example, using the database, a user could see why a position was reclassified.

Portland Police Bureau
According to the Police Bureau (PPB) and the CBO analyst assigned to the Bureau, tracking and managing vacancies at the Bureau is a challenge for many reasons. Challenges include the complex organizational management structure of the bureau; continual movement of staff within the bureau from one position to another; long lead-time to hire, train, and background check new employees; and the unpredictability of overtime spending. Bureau staff also told us that the City's SAP system is not well-designed for a bureau that has a lot of position changes, although over time PPB has figured out some modifications to their use of SAP to better suit their needs.

The Bureau's Personnel Division, Fiscal Services Division, and the Chief's Office are each involved in tracking and monitoring vacant positions at PPB. While the Chief's Office focuses on union-represented (sworn) positions to a greater degree, the Chief monitors non-sworn vacancies as well. Personnel and Fiscal staff focus on both types of positions. Fiscal and personnel staff indicated that positions may be held open in anticipation of possible budget cuts. Salary savings are also sometimes used to offset overtime expenditures that are higher than projected.

In FY 2012-13, PPB positions were cut as part of the Mayor's mandate to reduce spending, but no actual employees were laid off. According to the Bureau, that was accomplished in part by not hiring some new recruits, by other employees accepting the City's early retirement incentive offer, by maintaining existing vacancies, and by moving existing employees into other positions to avoid cuts in areas where positions were to be cut.

PPB's Fiscal Division developed two tools to monitor positions and vacancies: A Vacancy Dashboard is created by extracting payroll data from SAP and working with Personnel and the Chief's Office monthly to validate the information. The Dashboard is a high-level report which shows total number of vacancies for each type of position. It is also distributed to command staff. A second report is a General Fund Dashboard that includes a section on Personnel. In that section, actual expenditures are compared to the previous year, as well as to the revised budget. According to management, if personnel costs are under budget, some of the likely factors include salary savings from vacancies, or under-spending on overtime, or various types of pay-outs to departing employees.

The Personnel Division maintains its own Vacancy Report which is updated as needed. This report includes each unique vacancy, and shows the date the vacancy began. The Bureau of Human Resources (BHR) follows up with managers about non-sworn hiring that is taking longer than it should. The Chief's Office told us that sworn hiring is sometimes delayed because of the need to schedule around basic training and advanced academy classes, which have limited openings.

Water Bureau
The CBO analyst assigned to the Water Bureau described the process used to track vacancies for the Vacancy Savings Reduction Package (VSRP) required in FY 2012-13. The process involved determining what was a true vacancy, as opposed to a job reclassification or other change to a position. Now that the VSRP is not in place, the CBO is not required to do as much tracking, but the analyst told us he continues to have a good sense of the Bureau's vacancies.

The Water Bureau's budget manager told us that the Bureau produces a report of vacant positions every month, while another business operations employee creates a report that tracks the progress of filling the vacancies, including temporary appointments. Regular meetings with the Human Resources Bureau staff member assigned to the Water Bureau are held to review recruitment efforts.

According to the Bureau, it takes approximately 3 to 5 months to fill most positions, and longer if it is a higher level position or an apprentice position. The Bureau told us that they hold apprentice positions

vacant and hire in groups to be as efficient as possible in apprentice hiring. The Bureau also indicated that they have held vacancies open at times to see if they can change work assignments in order to avoid layoffs, and that they are constantly evaluating the need for positions as they come open.

The Bureau noted the difficulty of getting positions back once they are eliminated. They also indicated they sometimes hold positions open to achieve budget savings due to possible revenue shortfalls in much the same manner as the Bureau of Environmental Services. Finally, the Bureau told us that they need to consider the possibility of layoffs in other bureaus when making hiring decisions because some positions are subject to "bumping" from employees who hold similar positions in other bureaus. Bumping is the practice of an employee with more seniority displacing a current employee with less seniority in the same job classification, if the first employee loses his or her job.

Portland Parks & Recreation
Portland Parks & Recreation (PP&R) tracks vacancies by extracting data from SAP as needed. The SAP data is used to follow up with managers and BHR about the status of vacant positions. According to the Bureau, the length of time it takes to fill a vacancy may vary depending on the needs of the department, recruitment efforts, and budgetary considerations.

The Bureau indicated there are other factors that can affect vacancy length. For example, a prospective hire may be asked to perform skills demonstrations at multiple locations, which can take time to schedule and carry out. Also, a hiring supervisor or manager may decide to reevaluate the work that needs to be done to determine if a position should be reclassified. PP&R noted that the need to do more front-end outreach during the recruitment process to help increase diversity has added more time to the hiring process.

In recent years, the Bureau eliminated vacancies in response to a CBO recommendation. According to the Bureau, vacancies have sometimes been held open to provide a landing spot for impacted employees who would otherwise be laid off due to position reductions. PP&R also mentioned the difficulty of getting positions restored once they are eliminated, the need to consider bumping, and other factors as reasons for vacancies.

Bureau of Internal Business Services
A significant portion of the budget of the Bureau of Internal Business Services (BIBS) is dedicated to providing services to other City bureaus. This means that in some cases resources are not available to BIBS without a person actually being hired to fill a vacant position.

BIBS management does not believe that vacancies are an issue, and told us that to the extent they do have vacancies, these have been due to such factors as the FY 2012-13 VSRP, a possible reorganization in one division, timing of exams and certifications, concerns about the possibility of bumping, and the time it takes to fill higher level positions.

BIBS tracks vacancies by extracting data from SAP as needed but does not use the data to produce separate reports. In addition, bi-weekly meetings with the Director and managers include check-ins on staffing issues.

Bureau of Technology Services
The Bureau of Technology Services (BTS) is significantly funded by interagency agreements, meaning the Bureau does not always receive revenues unless positions are filled and providing billable services. BTS indicated they try to fill vacancies as quickly as possible, and that they have some specific reasons for vacancies. Among the reasons are positions that result in a vacancy being held open when a bureau-funded project is stalled, and the difficulty of competing with the private sector as in the case of information security positions. In the latter case, BTS modified its Information Security program and through a formal review by BHR, the classification of Information Security Architect was created and its compensation adjusted accordingly. Staff also mentioned that the recruiting process has more steps than in the past, and noted that neither BTS nor BHR is robustly staffed administratively.

BTS produces a weekly vacancy report using data from SAP. Each position on the report is color coded with red, yellow or green to indicate the urgency of filling the position, with red signifying that the funding for a position could be in jeopardy if it is not filled.

Portland follows best practices in some areas but has room for improvement

We identified best practices on vacancy management from such sources as the Government Finance Officers Association (GFOA), the California Legislative Analyst's Office, and the Montana Legislative Fiscal Division.

Although individual bureaus are in line with best practices in some cases, our analysis found that on a Citywide basis, Portland has room for improvement, as shown in Figure 4. Overall, Portland's approach to vacancies was not as systematic and consistent as it could have been, which puts the City at risk of budgeted funds not being used as intended.

Figure 4   Portland compared to selected best practices

Best Practice	Portland (Citywide)	Discussion
Quantify dollars saved by not filling vacant positions	No	Salary and benefit data is available but not often reviewed on a Citywide basis
Examine vacancies during the annual budget process	Sometimes	Not routine
Review departments with vacancy problems (potentially on a rotating basis)	None known	Auditor not aware of bureau-specific reviews to address vacancies
Examine need to maintain positions vacant for longer than six months, with emphasis on vacancies of one year or longer	No	No regular bureau-specific reviews

Source: Government Finance Officers Association, *Best Practice: Managing the Salary and Wage Budgeting Process*; Legislative Analyst's Office of California, *Analysis of the 2008-09 Budget Bill: General Government*; Legislative Fiscal Division of Montana, *Managing Vacant Positions in State Agencies;* and follow-up audit of same name, 2007.

Portland appears to be in line with other cities in vacancy tracking and rates

During our audit work, we contacted three other cities similar in size to Portland to determine if and how they were tracking vacancy rates and lengths, and to request data if available. We also asked each city if they had a policy to direct bureaus to limit or reduce vacant positions.

Of the three cities we contacted, Seattle and Denver provided us with data on vacancies, however, we did not audit the information they provided. In addition, both Seattle and Denver count positions slightly differently than Portland. With these caveats in mind, we found that Portland had lower vacancy rates, ranging between 4.4 percent and 5.3 percent in the three years we reviewed. Seattle had vacancy rates of 7 percent in 2011, 8 percent in 2012, and 10 percent in 2013; Denver had vacancy rates of 11 percent in 2011, 11 percent in 2012, and 12 percent in 2013. One of the cities systematically produced a Citywide vacancy report, while the other extracted data for us on request.

Like Portland, none of the cities we contacted was tracking vacancy length on a Citywide basis, and none had readily available data on vacancy length. Finally, we found that none of the other cities had a vacancy policy directing bureaus to limit or reduce vacancies.

Recommendations

Our audit determined that there are efforts throughout the City to understand, monitor, and limit vacancies, and that there are also many factors that contribute to vacancies. Although the vacancy rates we found were not unreasonable, the availability of taxpayer and ratepayer funds to pay for vacant positions warrants greater assurance that positions are being kept open only as long as needed and for good reasons.

To provide more transparency and ensure maximum stewardship over limited public resources, we recommend that the Chief Administrative Officer, City Budget Director, and Human Resources Director:

1. **Establish a process to determine if City bureaus are adequately tracking and limiting their vacancies.**

    While a "one-size-fits-all" approach may not be appropriate, it would be useful to establish a centralized process to ensure that bureaus are taking adequate steps to track and limit vacancies.

2. **Develop and regularly distribute reports that provide elected officials and bureau directors with data on length of vacancies by bureau. These reports should also include cost estimates of the funding associated with the vacancies.**

    Currently, reports that can be used to determine vacancy length are not specifically designed to do so and are not as reliable or as easy to use as they should be. Cost data for vacancies is also not being paired with vacancy data. This information would be useful in evaluating the impact of vacancies on bureau budgets and the City as a whole.

3. **Develop a Citywide policy stating the need for bureaus to minimize vacant positions.**

    Although vacant position rates were low on our sample dates, without a mandate specifically stating the need to limit vacancies, the City is at risk of bureaus maintaining higher vacancy rates than needed. If bureaus are maintaining vacancies to cover other costs, those costs should instead be specifically spelled out in the bureau's budget.

To ensure that appropriate oversight over vacant positions is a regular and ongoing part of the budget development process, we recommend that the City Council:

4. **Direct bureaus to report at least annually to City Council on the status of vacancies open over six months, with the most emphasis on vacancies unfilled for nine months or longer. This reporting should include the reason for each vacancy, the efforts being made to fill the vacancy, and the funding associated with the vacancy.**

   Although elected officials need not require that bureaus abolish all long-standing vacancies, this more systematic approach to reviewing vacant positions will help ensure greater accountability and transparency, and will help identify when vacancies should be abolished if they have not been filled.

Objectives, scope and methodology

The objectives of this audit were to determine if the City had large numbers of vacant positions over a long period of time, to analyze how selected bureaus are monitoring vacancies, and to identify the reasons for long-standing vacancies.

To accomplish these objectives, we identified best practices in vacancy budgeting and management, analyzed City policies and practices related to monitoring and managing vacant positions, and analyzed data on vacancies Citywide. We analyzed approaches to vacant positions in other cities and states.

We interviewed managers and staff members in the Office of Management and Finance, City Budget Office, Bureau of Human Resources, Bureau of Environmental Services, Portland Police Bureau, Water Bureau, Portland Parks and Recreation, Bureau of Internal Business Services and Bureau of Technology Services.

We obtained data from the Human Resources Bureau and the City Budget Office, and obtained and analyzed data from the Enterprise Business Solution, a division of the City's Office of Management and Finance.

The data provided by City staff members and used in this report had various limitations. Reports only provided moment-in-time data on vacancies and did not provide complete historical information. This would have been useful in determining vacancy lengths. In addition, if a position was vacant on the date the report was produced as well as on the sample date of the report, it appeared as an ongoing vacancy in the report, even though the vacancy may have been filled at some point between the sample date and the report date.

We did not include an analysis of vacancies in the ranks of the City's many temporary positions, but instead focused on permanent positions.

For our bureau-specific work, we compiled and analyzed a sample of vacancy reports from selected City bureaus. We also compared Portland to other cities' vacancy tracking practices and available data on vacancy rates.

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.

DATE: April 14, 2014

TO: LaVonne Griffin-Valade, City Auditor

FROM: Mayor Charlie Hales, Commissioner-in-Charge of the Office of Management and Finance

SUBJECT: Vacant Positions Audit

I appreciate the opportunity to respond to the above-referenced audit. I am glad to learn that the audit found no notable or systemic problems in the number of vacancies in the City or the duration for which they are held open.

I concur with OMF's letter in response to the audit in which they addressed the three recommendations directed to the Office of Management and Finance. I am encouraged by their statement that informative – and easy-to-use – data about bureaus' vacancies can be produced in existing SAP reports. I will follow up with OMF for this information about bureaus in my portfolio, and support them in working with my colleagues on Council to show them how to get similar reports about their bureaus. This will enable the Council to access information on a regular basis allowing for discussion throughout the budget development and approval process as well as throughout the year, meeting the objectives of the fourth recommendation in your audit.

Thank you for your work completing this audit.

Sincerely,

Charlie Hales
Mayor

Charlie Hales, Mayor
Fred Miller, Interim Chief Administrative Officer
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CITY OF PORTLAND

OFFICE OF MANAGEMENT AND FINANCE

To: LaVonne Griffin-Valade, City Auditor

From: Fred Miller, Interim Chief Administrative Officer *Fred Miller*

Date: April 10, 2014

Subject: Response to audit: Vacant Positions

Thank you for the opportunity to review and comment on your audit of vacant positions in the City.

We understand that a primary objective of the audit was to determine if the City had a large number of vacant positions over a long period of time. OMF is pleased that the audit determined the City has no significant problems in this regard. While vacancies do occur regularly in bureaus, your audit found that the City does not have a large number of vacant positions and that City bureaus do not keep their vacant positions open for an inappropriate amount of time.

Your audit notes that recruitment and selection in public agencies often takes longer than those processes in the private sector. The audit did not find any problem areas or notable inefficiencies in the City's recruitment and selection processes, either in the steps carried out by a hiring bureau or in the work performed centrally by the Bureau of Human Resources. Additionally, the audit noted that recruitment and hiring timelines were sometimes impacted by bureau efforts to achieve diversity goals, and to ensure hiring the most qualified candidates in the most efficient manner possible.

As the audit indicates, there are many legitimate reasons why a bureau might have a vacant position open for an extended period of time. Some are personnel reasons, e.g. bureaus may opt to hold a position vacant in order to assess current program needs and reclassify the position as appropriate, or may choose to hold a position vacant to provide a "landing spot" for an employee in another position that might be eliminated (either within their own bureau or in another bureau).

Other reasons are fiscal. Bureau managers are held accountable for operating within their adopted budgets and one tool available to them is the timing of filling vacancies. There are often significant costs associated with the departure of employees which must be covered by existing personnel services resources.

In addition, as noted in the audit, the Council has provided direction at various times on hiring slowdowns, hiring freezes and exception approval processes, and on maintaining vacancies, in order to reduce spending and generate savings.

This memo responds to the three recommendations in the audit that are directed at the Chief Administrative Officer and the Human Resources Director, as well as the City Budget Director. We have provided a single response to the first two of these recommendations.

Recommendation #1 – Establish a process to determine if City bureaus are adequately tracking and limiting their vacancies.

Recommendation #2 – Develop and regularly distribute reports that provide elected officials and bureau directors with data on length of vacancies by bureau. These reports should also include cost estimates of the funding associated with the vacancies.

Absent evidence of a problem, OMF is concerned about establishing new, City-wide tracking and reporting requirements. I believe the administrative cost of staff time to prepare, compile, and analyze additional vacancy reports outweighs the value of the report's contents. As noted in the audit, bureaus closely monitor and evaluate the many factors related to their vacant positions.

That said, OMF supports the idea of making the existing information about vacancies maintained in SAP more readily available and useable by bureau and Council staff. As noted in the audit, many bureaus are already extracting information from SAP for tracking and monitoring vacancies. OMF would be pleased to work with Council staff to familiarize them with the reporting tools in SAP they can use to review vacant positions in their bureaus. We are also open to suggestions from bureaus on how to improve the existing reports.

Recommendation #3 – Develop a Citywide policy stating the need for bureaus to minimize vacant positions.

Given that some of the Council's fiscal policies may be factors driving the number and duration of vacancies, it seems inadvisable to establish a vacant position policy that could conflict with the fiscal policy. We suggest that bureau managers continue to communicate with their respective Commissioners-in-Charge about the nature of the vacant positions in their bureaus, focus their attention on those vacancies that are extraordinary in number or in the duration they are held open, and discuss any proposed budget actions related to vacancy savings.

CITY BUDGET OFFICE

Charlie Hales, Mayor
Nick Fish, Commissioner
Amanda Fritz, Commissioner
Steve Novick, Commissioner
Dan Saltzman, Commissioner
LaVonne Griffin-Valade, Auditor

Andrew Scott, Director

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CITY OF PORTLAND, OREGON

To: LaVonne Griffin-Valade, City Auditor

From: Andrew Scott, Budget Director

Date: April 15, 2014

Subject: Response to Audit: Vacant Positions

Thank you for the opportunity to review and respond to your office's audit of vacant position management in the City of Portland.

CBO is pleased that the audit found that overall and over a period of time, the City had a 'reasonable' vacancy rate of between 4.4% and 5.3%. Even that range may be higher than the City's historical average, since during that period bureaus were required to hold vacancies and return the savings to the General Fund or their bureau contingency.

Moreover, CBO is glad to see that your review noted several different approaches that bureaus have taken to monitor and manage their vacancies, and discusses the distinct operational issues that drive those differences. We believe that these distinctions are appropriate. For example, a fee-supported bureau needs to manage vacancies within that dynamic revenue constraint, while a General Fund bureau with a fixed allocation will be more likely to try to minimize vacancies. Similarly, a large bureau may assume a certain 'frictional' vacancy rate and budget personnel services accordingly, while a small bureau is more likely to assume full staffing when constructing its budget.

Finally, CBO is pleased that the report acknowledges the budget office's increased focus on and understanding of the tools and issues related to vacancies. We continue to build our processes and analytical approaches to best utilize the available data to identify when the quantity or length of vacancies might be a symptom of a budget or performance problem – and when it reflects appropriate management or current fiscal constraints.

Overall we believe that the analysis in the report provides a picture of the nuanced issues associated with vacancy monitoring and management, and we want to ensure that the audit recommendations continue to capture these bureau-specific nuances.

Recommendation #1 – Establish a process to determine if City bureaus are adequately tracking or limiting their vacancies.

Given that all of the bureaus interviewed by the auditor have a process for managing staffing, budget, and vacancies, and given that these bureau-specific systems produce a reasonable, if not low, vacancy rate, we believe that the City is already adequately tracking and limiting vacancies. Nonetheless, CBO will continue to build our process regarding vacancy monitoring as one of many tools we use to identify possible budget or performance issues within bureaus. While limiting the number of vacancies should not be a goal in and of itself, the monitoring of vacancies is an effective tool for identifying possible issues.

Recommendation #2 – Develop and regularly distribute reports that provide elected officials and bureau directors with data on length of vacancies by bureau. These reports should also include cost estimates of the funding associated with the vacancies.

The first part of this recommendation is a request we have also heard from elected officials as part of our reengineering of the budget monitoring process. As the year-round monitoring of budgets and performance continues to evolve, we expect to incorporate high-level data on filled positions and, potentially, the length of vacancies. As noted above, we currently use these tools for issue identification.

With regard to cost estimates of the funding associated with vacancies, there are many factors that need to be taken into account to get a meaningful figure:

a) What are the total costs associated with the vacancy (e.g., leave payouts, recruitment costs, overtime to maintain service levels, etc.)?
b) Are existing or projected revenue shortfalls driving the need to hold the position vacant?
c) Is there a bureau-wide budgeted assumption for annual vacancy savings that already accounts for specific position savings?
d) Is the savings based off of the incumbent salary, replacement salary, low-end for the classification, mid-point?

Our experience during the vacancy savings exercise in FY 2012-13 is that the process of estimating the funding and/or savings associated with each individual vacancy is complex and there is little value to be gained in the exercise. Ultimately, this information is best synthesized at the managerial level to address specific service-level needs and existing fiscal constraints.

Recommendation #3 – Develop a Citywide policy stating the need for bureaus to minimize vacant positions.

While the report identifies this recommendation as best practice, it does not provide any examples of municipalities where such a policy exists. Moreover, the report does not adequately address why such a policy would be beneficial.

CBO believes that such an input-focused policy could be counterproductive to managing bureau operations, meeting service level expectations, and addressing short- and medium-term fiscal constraints. In the same way that appropriations are a maximum spending authority, position authority is an upper limit, not a target. We would expect that a bureau that identifies an efficiency and is able to provide services with fewer FTE would do so, even if that means increasing the number of vacancies for an extended period of time. Maximizing inputs should never be the focus of fiscal policy and performance management.

We suggest that bureaus and CBO continue to work with Commissioners-in-Charge to ensure that bureaus are utilizing existing resources – both people and funding – to achieve desired service levels at the least cost.