



OFFICE OF THE
City Auditor

Human Resources Branch Audit

April 2, 2008

The Office of the City Auditor conducted
this project in accordance with the
*International Standards for the
Professional Practice of Internal Auditing*

Table of Contents

Summary for City Council.....	i
1. Introduction	1
2. Background.....	1
2.1. Organizational Description.....	1
2.2. Corporate Human Resources Strategy: A Three-Year Plan	2
3. Objectives, Methodology and Scope	2
4. Observations.....	5
4.1. Human Resources Branch Cost Effectiveness	5
4.1.1. Have significant variances occurred within the Branch budget?	5
4.1.2. Are Branch costs comparable to other organizations?	6
4.1.3. Are Branch staff ratios comparable to other organizations?	7
4.1.4. Is the Branch operating in a cost effective manner?	10
4.2. Staff Recruitment	10
4.2.1. Is the duration of the recruitment process reasonable?	10
4.2.2. Are business areas confident in the recruitment process?.....	13
4.2.3. Does COE have a fair and open recruitment process?.....	14
4.2.4. Is the recruitment process effective, efficient, and economical?	15
4.3. Retention of Staff	15
4.3.1. Are the COE turnover rates comparable to others?	15
4.3.2. What are the potential impacts of turnover on the City?	17
4.3.3. Are HR clients confident HR strategies will help them retain employees?18	18
4.3.4. Is the Branch effective in its role of helping retain employees?	19
4.4. Workforce and Succession Planning	20
4.4.1. What is workforce planning?	20
4.4.2. What is succession planning?.....	20
4.4.3. Is the Branch providing support for workforce planning?	22
4.4.4. Are business areas satisfied with workforce planning support?.....	23
4.4.5. Does the City have up-to-date succession plans?	24
4.4.6. Are business areas satisfied with succession planning support?.....	25
4.4.7. Is the City's succession planning working?.....	26
4.4.8. Are workforce and succession planning activities effective?.....	27
5. Conclusions and Recommendations	28
6. Management's Response to Recommendations	30

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Human Resources Branch Audit

Summary for City Council

The Human Resources Branch business objective is to develop and implement human resources strategies that will attract, develop and retain a diverse, engaged, productive, and talented workforce.

Our audit objective was to determine if the services provided by the Branch are effective, efficient, and economical in addressing the human resource needs of the City of Edmonton. Our audit results focused on the Branch's overall financial performance and on three high risk areas: staff recruitment, staff retention, and workforce succession planning. The three primary methods we used to gather the evidence were internal research, external research with other cities, and industry benchmark comparisons.

Financial Performance

The 2007 Human Resources Branch budget was \$9.6 million. The branch's budget has grown by \$1.2 million (14%) from 2005 to 2007. During that time, actual expenditures have increased by about \$1.6 million or 20% because the Branch under-spent its budget by \$391,000 in 2005 and over-spent by \$35,000 in 2007. This was due to implementing the Employment Outreach service package, implementing the Health Care Spending Account benefit for employees, transferring a safety position from Asset Management and Public Works, salary increases, and program cost increases due to inflation. We reviewed the financial data for the fiscal years 2005, 2006 and 2007 and found no significant program budget variances.

We researched other cities and found that the Human Resources Branch's cost per City employee in 2007 was \$872 per employee (Full and part-time) compared to the average of \$968 of the cities surveyed. The industry benchmark data further showed that the Human Resources Branch costs in relation to the City's total operating costs are at the median level, meaning that 50% of those surveyed have higher cost ratios. The Human Resources Branch staff levels have remained conservative since 2003 (up 3%) while civic administration staffing on the whole has grown by 16%. The Branch's staff ratios are comparable to the other municipalities we surveyed. The industry benchmark comparison showed that the Branch is staffed at the 75 percentile level (only 25% of other cities surveyed supported more staff per HR employee). Based on this analysis, we concluded that the Branch is operating in a cost effective manner.

Staff Recruitment

The Human Resources Branch has not achieved its targeted Time-to-Fill rate of 52 days, but at 56 days, it is within reason. We compared the City's actual Time-to-Fill rate to that of other cities and found that it is near the average. The Branch is moving forward to improve recruitment efficiency by introducing an electronic recruitment

system. No external or industry benchmark information for recruitment costs was available for comparison, so we are unable to determine whether the Branch's recruitment services are economical. The Branch's clients indicated varying levels of confidence in its ability to attract qualified candidates, which we believe reflects a very competitive labour market. Our recruitment process review found that the process is fair and open. The Branch has proactively engaged in several recruitment initiatives to support and promote a diverse labour workforce, such as the Employment Outreach program. Based on this analysis we conclude that the Branch has effective and efficient processes in place to recruit new employees.

Staff Retention

The City's turnover and resignation rates are in line with the other cities we surveyed. These rates are rising and associated cost impacts are increasing. We found that client confidence in the Human Resources Branch's retention strategies varied. The increase in employee turnover in the past few years and the competitive labour market undoubtedly affect clients' levels of confidence. We conclude that the Branch is effective in helping the City retain employees; however, opportunities exist to increase effectiveness. To help increase effectiveness in retaining employees:

1. *We recommend that the Human Resources Branch communicate to all employees the benefits and programs offered by the City of Edmonton that define it as an attractive workplace.*
2. *We recommend that the Human Resources Branch develop criteria, including timelines, for periodic compensation reviews.*
3. *We recommend that the Human Resources Branch determine acceptable turnover thresholds for each job family and monitor the actual turnover rates, taking appropriate action when a rate exceeds the acceptable level. They should also assess these thresholds periodically to ensure they are still appropriate.*

Workforce and Succession Planning

The Human Resources Branch has made significant progress in workforce planning and the HR clients indicated a high level of awareness of these activities with overall moderate satisfaction ratings. We also believe the Branch's efforts have moved the City towards best practice in succession planning. Although not all business units have formal succession plans, the Branch is very aware of the need for such plans and is successfully moving the succession planning process forward. We believe it will take several years to culturally ingrain succession planning as an ongoing business planning practice. We conclude that the Human Resources Branch is effective in supporting workforce and succession planning activities. We believe that the Branch must continue to focus on these efforts in order to further ingrain succession planning within the City.

4. *We recommend that Human Resources Branch continue to implement the succession planning strategy and regularly monitor and report on progress on a corporate basis.*

Human Resources Branch Audit

1. Introduction

Our 2008 Annual Work Plan, as approved by City Council, included an audit of the Human Resources Branch. The Human Resources Branch business objective is to develop and implement human resources strategies that will attract, develop and retain a diverse, engaged, productive, and talented workforce.

2. Background

2.1. Organizational Description

The Human Resources Branch is one of eight branches within the Corporate Services Department. The Branch was most recently restructured in April 2007. The restructuring focused on:

- Creation of dedicated recruitment services teams accountable for the recruitment and retention of specific job families,
- Emphasis on scanning for external best practices and evaluating the City's policies and processes against these benchmarks,
- Implementation of the Corporate Human Resources Strategy,
- Alignment with the City's Shared Service business model,
- Adoption of the new 'science' of human resources,
- An enhanced labour relations function, and
- Increased strategic support for Client Departments and the organization.

The new structure organized the Branch into seven business areas. The following is a brief description of the function of each unit:

- **Recruitment** serves the City with a focus on attraction and selection of a diverse, skilled and engaged workforce.
- **Payroll, Benefits and Pension** provides payroll, benefits and pension administration for all City employees and also provides some service (payroll & benefits) to Edmonton Police Service and the Edmonton Public Library.
- **Compensation** serves the City with a focus on administering, designing and implementing compensation programs.
- **Labour Relations** is responsible for working with managers and union representatives to anticipate emergent labour issues, identify appropriate solutions, and negotiate and provide advice and interpretation of collective bargaining agreements.

- **Strategy Support** designs and manages strategies, programs and processes to facilitate organizational development, provides human resource solutions to corporate and client departments, and researches and analyzes human resources data to provide accurate workforce data and performance measures.
- **Strategic Advisors** are responsible for forming strategic partnerships with client departments to enhance human resource service delivery, organizational performance, and workforce planning.
- **Employee Safety & Wellness** is responsible to develop and support programs focused on ensuring legislative compliance and on enhancing employee health and safety, management of disability related programs (including STD, LTD, WCB), and improving employee health.

2.2. Corporate Human Resources Strategy: A Three-Year Plan

The Human Resources Branch released the *Corporate Human Resources Strategy: A Three-Year Plan* (the Strategy) in January 2007. The strategy is aimed at addressing the increasingly challenging business and labour environment in which the City of Edmonton operates.

There are three focus areas within the Corporate Human Resources Strategy:

- **“Leadership”** focus area is aimed at providing strong performance leadership today and in the future.
- **“Talent”** focus area is aimed at attracting, developing, and retaining a diverse, productive, and engaged workforce.
- **“Performance”** focus area is aimed at enhanced performance at the individual, team, and organizational level.

Identified within the Strategy are tactical plans and performance measures for each of these three focus areas. The Branch will use the performance measures to report on the success of the plans for each area.

3. Objectives, Methodology and Scope

Audit Objectives: The primary objective of this branch audit was to determine if the services provided by the Human Resources Branch are effective, efficient, and economical in addressing the human resource needs of the City of Edmonton. This primary objective was further refined into the detailed objectives described below.

1. **Branch Cost Effectiveness** - To determine whether the Human Resources Branch is providing value for the budget allocated.
2. **Recruitment of Staff** - To determine whether the Human Resources Branch has effective, efficient and economical processes in place to recruit new employees.
3. **Retention of Staff** - To determine whether the Human Resources Branch is effective in its role of helping the City retain employees.

4. **Workforce and Succession Planning** -To determine if the Human Resources Branch is effective in supporting workforce and succession planning activities.

Methodology: We performed our audit in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

The OCA developed audit programs for each of the detailed audit objectives described above. The audit programs identified the audit steps necessary to gather sufficient evidence to address each audit objective. We used three main methods to gather the evidence:

Internal Research

- ▶ Conducted an internal survey of HR clients
- ▶ Interviewed HR management
- ▶ Analyzed financial and performance results
- ▶ Reviewed the Branch's recruitment process and performed tests to confirm consistency

Industry Benchmark Comparison

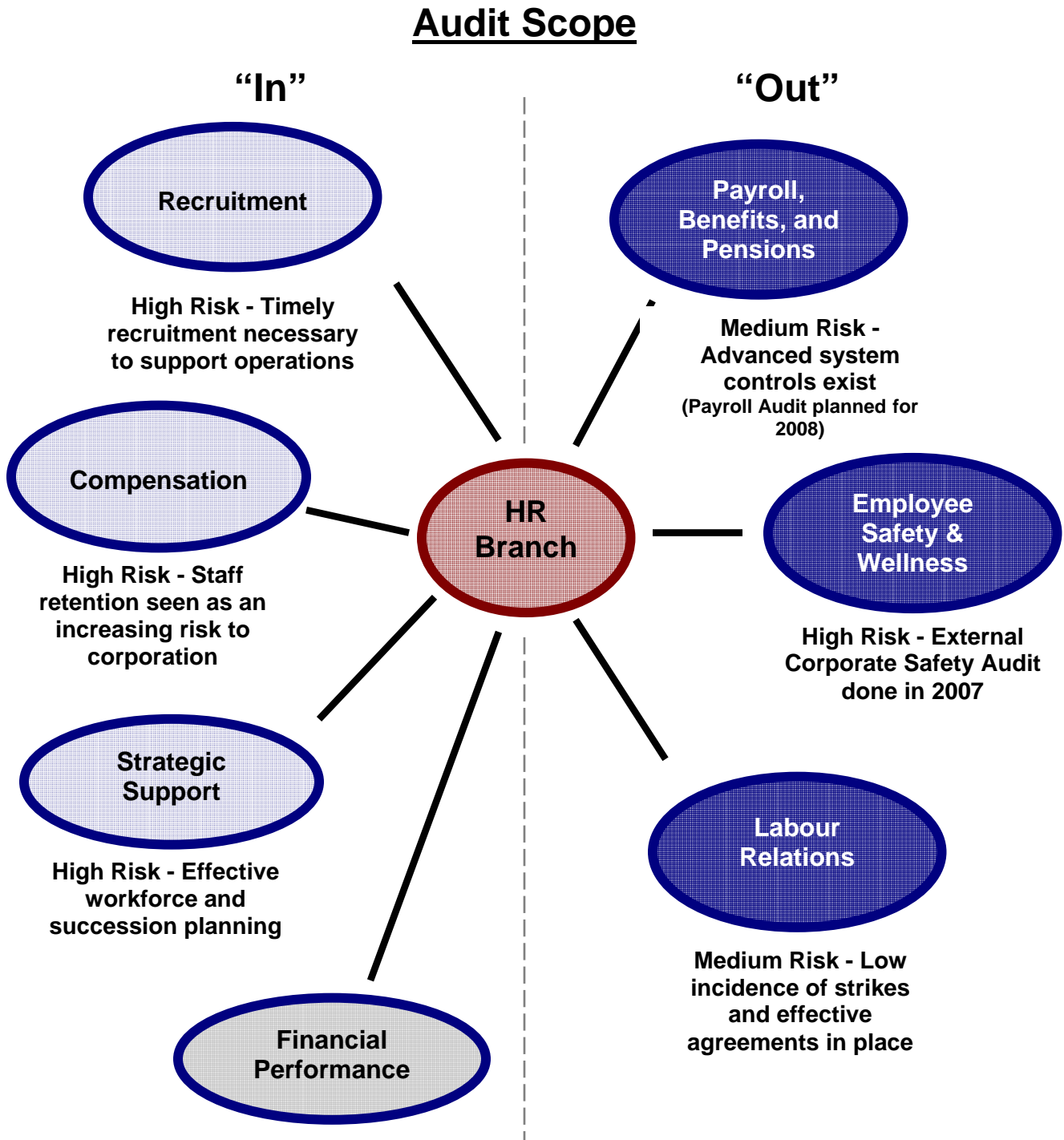
- ▶ Researched industry associations
- ▶ Calculated industry metrics for benchmark comparison

External Research

- ▶ Conducted external interviews with other municipalities
- ▶ Analyzed and compared external research to internal data

Audit Scope: The audit scope was based on our overall risk assessment of the Human Resources Branch and defines which areas of the Branch operations that we included in the audit. Figure 1 illustrates the areas of the Human Resources Branch that are “in scope” (part of the audit) and “out of scope” (excluded from the audit).

Figure 1: Human Resources Branch Audit Scope



4. Observations

4.1. Human Resources Branch Cost Effectiveness

4.1.1. Have significant variances occurred within the Branch budget?

Significant program variances have not occurred. As shown in Table 1, Human Resources Branch budget variances for 2005 and 2006 were under budget by 4.7% and 4.1% respectively. In 2007 the Branch overspent its budget by 0.4%.

We conducted a detailed analysis of the Branch's budget and expenditures in order to understand these variances. We met with management to discuss all annual variances greater than 10% and with a minimum value of \$10,000. Branch management explained that the under-expenditure in the 2005 budget was primarily due to several unfilled positions within the Human Resources Branch. In 2006, those positions were largely filled and the 2006 variance is attributable to under-expenditures in contracting, consulting, and professional services. The 2007 expenditures reflect the cost of implementing the first year of the three-year Corporate HR Strategy.

Table 1 shows that the net Branch budget increased by \$1.2 million or 14% from 2005 to 2007. The increase from 2006 to 2007 accounted for \$1.0 million of the overall two-year budget increase. That increase was due to implementing the Employment Outreach service package, implementing the Health Care Spending Account benefit for employees, transferring a safety position from Asset Management and Public Works, salary increases, and program cost increases due to inflation.

Table 1: Human Resources Branch Program Variance for Years 2005-2007

	2005	2006	2007
Net Budget (\$000's)	8,370	8,521	9,563
Actual Expenditure (\$000's)	7,979	8,169	9,598
(Over)/Under Variance (\$000's)	391	352	(35)
Net Budget (Over)/Under Variance	4.7%	4.1%	(0.4%)

Because the Branch under-spent its budget by \$391,000 in 2005 and over-spent by \$35,000 in 2007, actual expenditures increased by about \$1.6 million or 20% between 2005 and 2007.

Overall, program budget variances have not been significant during the period from 2005 to 2007. We are satisfied with management's explanations of the individual variances we identified.

4.1.2. Are Branch costs comparable to other organizations?

Based on our external research and comparison to industry standards we believe the City’s Human Resources Branch costs are comparable to those of other organizations.

Figure 2 shows the net budgeted expenditures of four western Canadian cities from 2005 to 2007. All four cities surveyed experienced growth in net expenditures during this period. Edmonton’s net budgeted expenditures for human resources are near the mid-range of these cities surveyed.

The cities shown all spend varying amounts on human resources which is dependant on the number of employees they support, and also their scope of activities. For example the City of Surrey human resources costs do not include payroll costs which account for about 20% of Edmonton’s total human resources costs.

Figure 2: Comparison of HR Spending in Western Canadian Cities

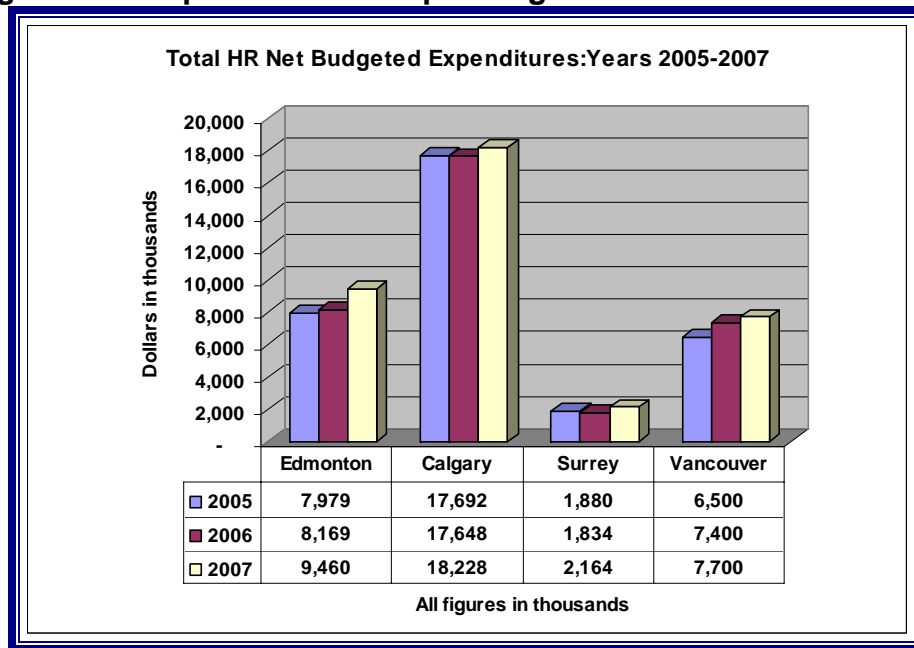


Table 2 is an analysis of the average net human resources cost per employee for these same cities. These unit costs include each city’s total human resources net budgeted expenditures divided by the total number of employees supported by their equivalent of our Human Resources Branch.

The City’s average human resources cost for 2007 was \$872 per employee (Full and part-time) which is below the average (\$968) of the cities surveyed. Overall we believe that Edmonton’s average human resources cost per employee is comparable to the cities within this survey group.


Table 2: Average Human Resources Cost per Employee for 2007

Municipality	Edmonton	Calgary	Surrey	Vancouver	Average
Net human resources expenditures / number of full-time & part-time employees supported	\$872	\$1,234	\$607	\$1,159	\$968

Industry benchmarking reports present survey results in a consistent and comparable manner. The Human Resources Branch is a participating member of the Saratoga Research Group,¹ which provides benchmark data for human resource related activities in North America and Europe.

Table 3 shows the 2006 Saratoga Research Group results on human resources costs relative to total organization operating costs. The Saratoga benchmarking results show that the City human resources cost ratio (0.53%) is at the median, meaning that 50% of the survey group have a lower ratio and 50% have a higher ratio.

Table 3: Industry Benchmark Comparison

2006 Saratoga Research Results Human Resources Costs to Organization Operating Costs (%)					
Percentile	10 th	25 th	Median	75 th	90 th
Annual results	0.20%	0.26%	0.51%	1.42%	3.00%
Human Resources Branch 2006 Results (0.53%)					

4.1.3. Are Branch staff ratios comparable to other organizations?

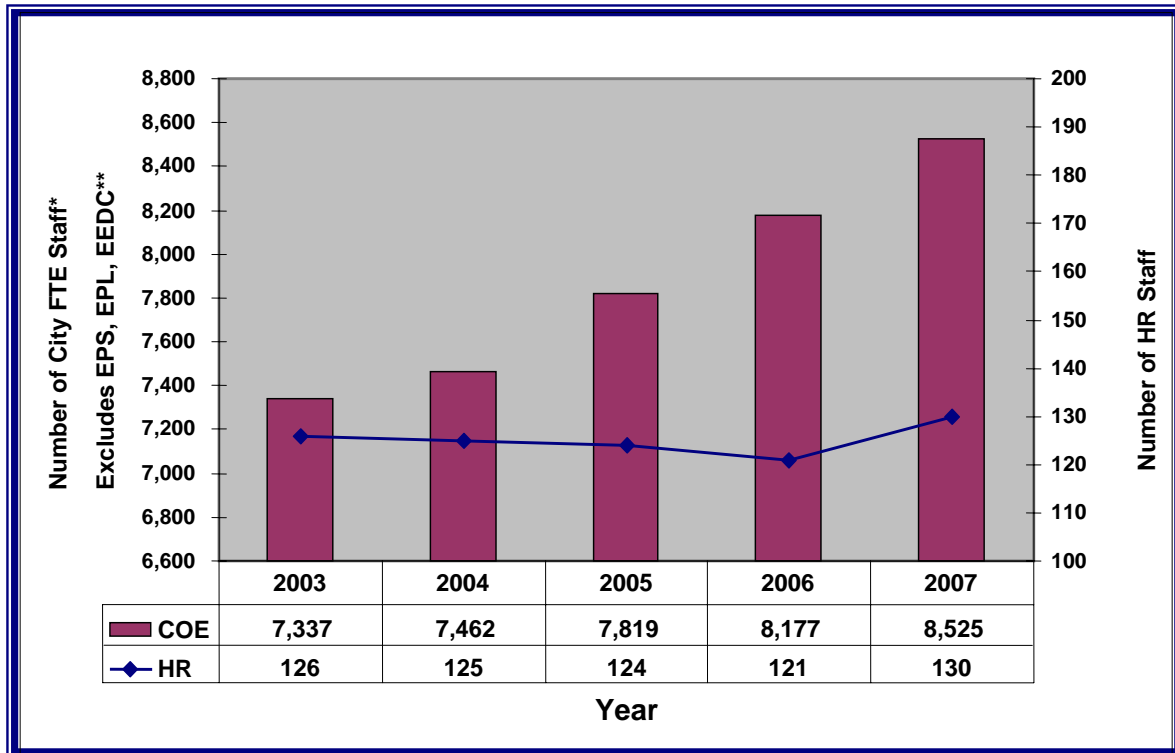
Based on our survey of other cities and industry benchmark comparison we conclude that the City of Edmonton Human Resources Branch staff ratio is comparable to other municipalities.

Figure 3 illustrates the growth in City staff members who are directly supported by the Human Resources Branch. From 2003 to 2007, the number of full time equivalent positions in the City increased by 1,188 or 16%. These figures include positions in civic programs, municipal operations, and utility operations. These figures do not include positions in Edmonton Police Services, Edmonton Public Library, or Edmonton Economic Development Corporation, which provide their own human resource services.

¹ Saratoga Research Group is part of the PricewaterhouseCoopers Human Resource Services practice. The Group is dedicated to providing practical, multidisciplinary HR advisory services. Saratoga conducts comprehensive HR-related surveys throughout Europe and North America.

The number of Human Resources Branch positions declined from 2003 to 2006. In 2007, the Branch added 9 positions, which are associated with the Branch restructuring and implementation of the Corporate Human Resources Strategy. The net growth of the Branch from 2003 to 2007 is 4 positions or 3%.

Figure 3: Comparative Growth in COE and HR staff (Full Time Equivalent Positions)



* FTE is a staff calculation that combines part-time positions into equivalent full time positions (i.e., two half-time positions would equal one full time equivalent position).

**Edmonton Police Services, Edmonton Public Library, Edmonton Economic Development Corporation

To answer this question, we asked other municipalities the number of positions within their Human Resources Branches and also the number of full and part-time staff they support. We asked for the number of full and part-time staff because supporting part-time staff requires nearly the same level of effort as supporting full-time staff. This is because human resources must recruit part-time employees every year. The results, shown in Table 4, illustrate that the number of staff supported by each city varies significantly and also reflects the significant variance in human resources budgets between cities.

In 2007, the Branch supported 10,846 full- and part-time employees (equivalent to 8,525 FTE's) with 130 staff. The average number of staff supported by each Branch employee was 83, which is comparable to other cities surveyed.

Table 4: External Research Comparison 2007 Data

City	Staff supported by Human Resources Branch (Full- & Part-Time)	Number of Human Resources Branch Staff	Average number of staff each HR staff supports
Calgary	14,768	192	77
Winnipeg	8,576	141	61
Edmonton	10,846	130	83
Vancouver	6,643	63	105
Surrey	3,568	20	179

Note: The table is sorted by number of human resources branch staff.

We also performed an industry benchmark comparison (using Saratoga’s methodology) to gauge Edmonton’s standing. Under this methodology all human resource staffing related to Training and Development, Payroll, Health and Safety functions is excluded, which is why the results of Table 4 and Table 5 are not directly comparable.

Applying the Saratoga methodology, we determined that in 2006, each referenced Branch employee supported 103 employees on average. We then compared this result to Saratoga Research results shown in Table 5. The Branch’s ratio of 103 is at the 75th percentile of the Saratoga Research meaning 75% of survey group’s human resources staff supported fewer employees than the City’s Branch does.

Table 5 Industry Benchmark Comparison

2006 Saratoga Research Results*					
Number of Permanent Employees Supported per Human Resources Employee					
Percentile	10th	25th	Median	75 th	90th
Annual 2006 results	52	75	85	103	111

*Note: The Saratoga methodology does not include Payroll, Training and Development, and Health and Wellness staffing numbers in the results.



2006 COE HR Results (103)

4.1.4. Is the Branch operating in a cost effective manner?

Yes. We conclude that the Human Resources Branch is operating in a cost effective manner.

We reviewed the financial data for the Human Resources Branch and found that no significant program budget variances have occurred. The Branch's actual costs have risen substantially in the last few years due to organizational changes to align to the new Corporate Human Resources Strategy and to address emerging workforce issues in a very competitive labour market.

We researched other cities and found that the City's cost per employee is comparable to other cities. The industry benchmark data further showed that the Human Resources Branch costs in relation to total operating costs are at the median level.

The City's Human Resources Branch staff levels have remained relatively constant since 2003 and Edmonton's employee to human resources staff ratio is comparable to other cities that we surveyed. We also compared to the Branch with industry benchmark data and found that the City's employee to human resources staff ratio is at the 75 percentile range of those surveyed.

4.2. Staff Recruitment

4.2.1. Is the duration of the recruitment process reasonable?

In 2007, the City averaged 56 days to fill a permanent position versus the target set at 52 days. However, the City's average number of days to fill a position is in line with other organizations.

We measured the duration of the recruitment process using the performance measure Time-to-Fill.² Time-to-Fill measures the efficiency of the recruitment process. The Branch must fill positions in a timely manner in order for the City to achieve its objectives. The City can also lose job candidates to competing organizations if the recruitment process takes too long.

The Branch must find the optimal Time-to-Fill that will meet the needs of the City in a timely manner while providing quality new hires. The target they have set is an average of 52 days. The current competitive labour market will also affect Time-to-Fill results.

² **Time-to-Fill Methodology:** This measure represents the number of calendar days (including weekends and general holidays) from when the request to fill is opened in PeopleSoft (Human Resources computer system) to the date of the offer letter for each permanent employee hired in the year.

Table 6 shows the City's Time-to-Fill results for the past three years. From 2005 to 2007, the total number of positions filled increased by 315, which represents an increase of 38%. The Time-to-Fill for these positions was as high as 57 days in 2005 and decreased to 53 days in 2006. Given that HR was able to achieve a Time-to-Fill of 53 days in 2006, we believe that the target set at 52 days is achievable.

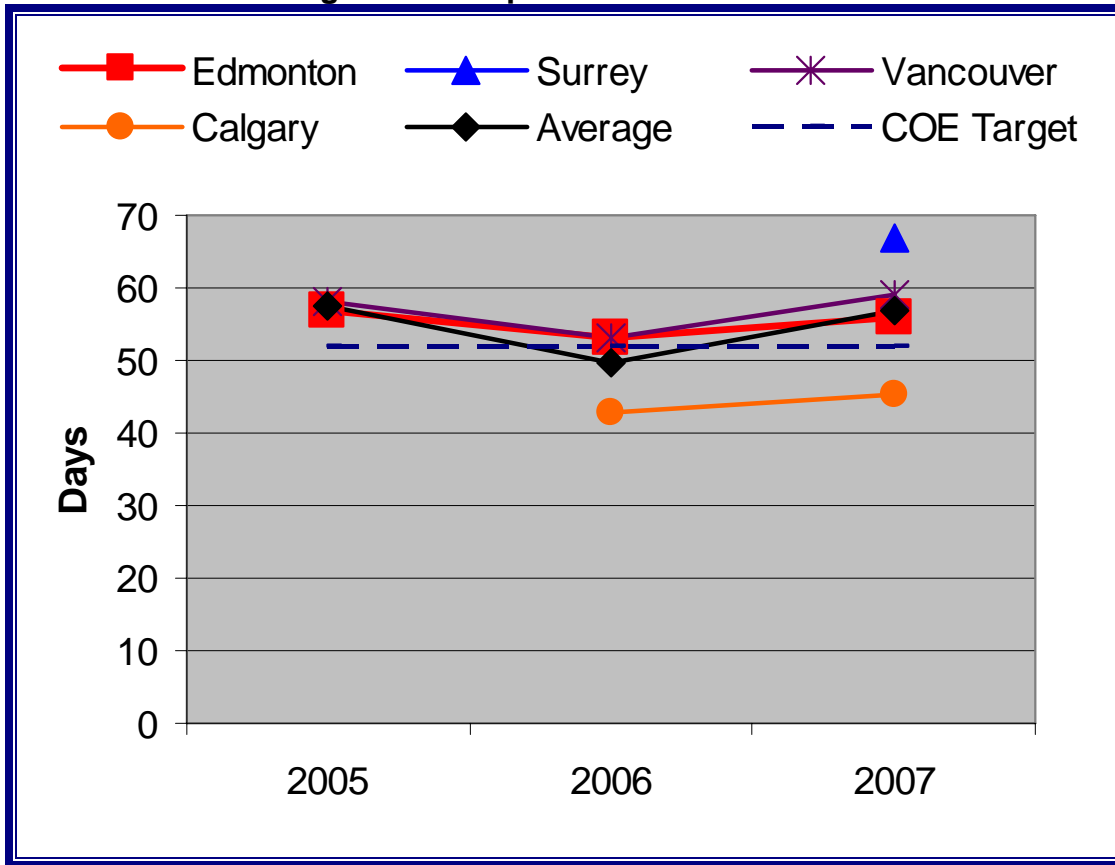
Table 6: City of Edmonton Time-to-Fill Results

	Total days to fill	Total Permanent hires	Time-to-fill	Target
2007	64,399	1,149	56 days	52 days
2006	54,013	1,010	53 days	n/a
2005	47,444	834	57 days	n/a

The Branch recognizes the need to bring the Time-to-Fill in line with their set target. To do this they implemented Taleo, an electronic recruitment management system, in late February 2008. This system is expected to increase efficiency in the hiring process and decrease the amount of time it takes to hire employees. The Branch has also started preparing recruitment plans for each Branch in the City using input from the Branch Managers. The recruitment plans identify the number of positions required in each Branch, the potential challenges they will face in trying to find appropriate candidates, and potential sourcing options. The process of completing the recruitment plans and keeping them up-to-date will further improve the efficiency of the recruitment process. Also in 2007, the Human Resources Branch implemented a comprehensive Employment Outreach program. This program will expand the number of employee sourcing options and will play a key role in diversifying the City's workforce.

Figure 4 shows the comparison of Edmonton's Time-to-Fill rates to those of the cities we surveyed. Edmonton's 2007 rate of 56 days is in line with the average of 56.8 days. The results also show that Edmonton is taking 11 days longer than Calgary to fill positions.

Figure 4: Comparison of Time-to-Fill



Time-to-Fill should also be assessed in relation to a Quality-of-New-Hire measure. The First-Year-of-Service Turnover³ rates provide a useful indication of the quality of new hires.

Table 7 shows the comparison of First-Year-of-Service Turnover results between Edmonton and the other cities we surveyed. All of the cities, except Winnipeg, are experiencing increasing trends in First-Year-of-Service Turnover. Edmonton has lower than the average First-Year-of-Service Turnover rates for all three years. These results also show that Calgary’s 2007 First-Year-of-Service Turnover rate is 14% higher than Edmonton’s.

According to the Saratoga Institute research, there is a correlation between a decreasing Time-to-Fill and an increasing First-Year-of-Service voluntary turnover rate. This implies that achieving overly aggressive Time-to-Fill targets can have a negative effect in that it will lead to increased first year turnover.

³ **First-Year-of-Service Turnover Methodology:** This measure represents the percent of permanent employees with 0 to 1 year of service who left the organization (retired, resigned, dismissed, etc.) as compared to the organization’s total number of permanent employees with 0 to 1 year of service.

Table 7: First-Year-of-Service Turnover

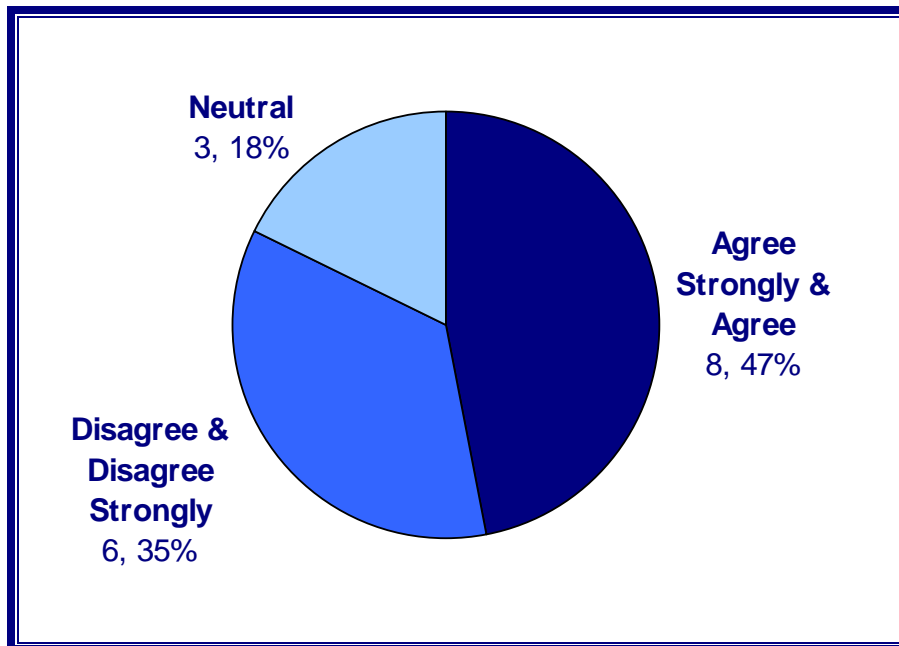
	2007	2006	2005
Edmonton	11.2%	7.6%	6.6%
Calgary	25.2%	N/A	N/A
Vancouver	17.2%	5.9%	4.6%
Winnipeg	14.1%	14.3%	14.0%
Average	16.9%	9.3%	8.4%

4.2.2. Are business areas confident in the recruitment process?

Through the internal survey we conducted, we have found that not all HR clients are confident in the recruitment process.

In January of 2008, we surveyed the General Managers and a sample of Branch Managers and found that 47% agreed or strongly agreed to the statement “You are confident that the recruitment process used by the Human Resource Branch will deliver qualified candidates for your job openings” (Figure 5). Respondents who were confident in the process tended to be heavy users of the recruitment process.

Figure 5: Internal Survey of Confidence in Recruitment Process



These results reflect the impacts of a very competitive labour market and the recent changes to the Human Resources Branch model. In order to increase the effectiveness of the recruitment process, the Human Resources Branch has implemented Taleo (an electronic recruitment management system) and employment outreach initiatives and

has developed recruitment plans. Taleo will help to provide role clarity about recruitment requirements to the hiring managers and the recruitment plans will help to increase the hiring managers' confidence in the recruitment process.

The Human Resources Branch has also included a measure of client satisfaction with a target of 75% within the Shared Service's Level Agreements. This will allow them to monitor confidence and satisfaction with the recruitment process.

4.2.3. Does COE have a fair and open recruitment process?

Based upon our review and testing of the recruitment process, we believe the City of Edmonton has a fair and open recruitment process. The Human Resources Branch has proactively changed its traditional recruitment approach to reach out to new segments of the labour market and diversify the City's labour force.

The Human Resources Branch worked with Deloitte Consulting to develop a best-practice recruitment process model. The Branch adopted the model and began implementing it in April 2007.

Our review of a sample of recruitment files from 2006 and 2007 found that the Branch is following the Deloitte Consulting model and that they are conducting the recruitment process in a fair and open manner. The files we reviewed showed evidence of a candidate screening process and documented interviews in which reasonable criteria were used to fairly evaluate candidates.

We also calculated the Grievance Rate⁴ to gauge how fair and open the recruitment process is. The "Grievance Rate" for union jobs was 5.5% in 2007. Unfortunately, internal data to calculate the 2005 and 2006 results and comparable industry benchmark data is not available.

As a public employer, the City of Edmonton should extend equal opportunities to all citizens regardless of demographic backgrounds. The Branch has implemented the Employment Outreach program aimed at reaching out to the diverse communities in Edmonton to attract qualified candidates. The outreach program targets four external audiences: aboriginals, youth, newcomers to Edmonton, and persons with disabilities. This program expands the organization's traditional avenues of reaching out to candidates. It also provides further evidence that the Branch has a fair and open recruitment process.

⁴ **Grievance Rate Methodology:** This measure represents the percent of grievances against the total number of union job postings, including all permanent union jobs posted plus all CUPE 30 temporary jobs posted, as they are the only union allowed to grieve against posted temporary positions.

4.2.4. Is the recruitment process effective, efficient, and economical?

The recruitment process is an effective and efficient process to recruit new employees. No external recruitment cost data is available so we are unable to conclude whether the process is economical.

The Branch has not achieved its targeted Time-to-Fill rate of 52 days; however it is close. We compared the City's Time-to-Fill rate to other cities and found that it is near the average of other cities surveyed. Also, the Branch is moving forward to improve recruitment efficiency with the introduction of an electronic recruitment system. No external or industry benchmark information was available for comparison of recruitment costs so we are unable to provide a conclusion whether the Branch's recruitment services are economical.

The Branch's clients indicated varying levels of confidence in its ability to attract qualified candidates, which reflects a very competitive labour market. Our review of the recruitment process found that the process is fair and open. The Branch has proactively engaged in several recruitment initiatives to support and promote a diverse labour workforce.

4.3. Retention of Staff

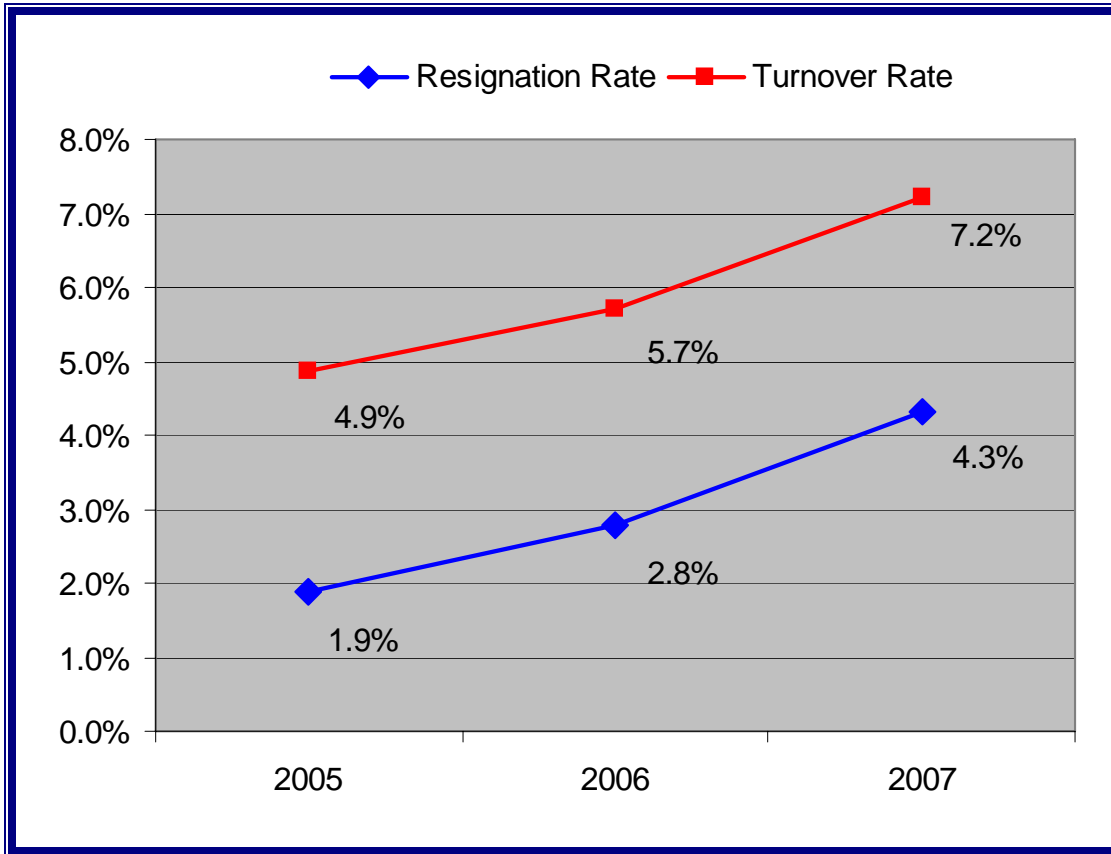
4.3.1. Are the COE turnover rates comparable to others?

The current Turnover and Resignation Rates are in line with other cities we surveyed. However, these rates are rising and associated impacts are increasing.

To answer this question we used the results from two different measures: Resignation Rate and Turnover Rate. Resignation Rate only includes the people who choose not to work for the organization. Turnover Rates include the people who chose not to work for the organization (resignations), plus everyone else who leaves (retirements, dismissals, deaths and reductions due to program changes).

Figure 6 shows the increasing trend in turnover and resignation rates for the City from 2005 to 2007. On average, turnover and resignation rates have increased by 1% each year from 2005.

Figure 6: COE Turnover and Resignation Rates



High resignation rates are often associated with a competitive labour market, so it is useful to compare our results with those of other cities. Table 8 shows the comparison of the City’s turnover rates to those of the cities we surveyed. Edmonton’s turnover rates are in line with the other cities we surveyed. The City had below average turnover rates in 2005, 2006 and 2007.

Table 8: Turnover Rates

	2007	2006	2005
Edmonton	7.2%	5.7%	4.9%
Surrey	7.0%	6.8%	6.2%
Winnipeg	5.4%	4.3%	4.0%
Vancouver	6.7%	5.6%	4.5%
Calgary	10.3%	7.8%	5.5%
2007 Average	7.3%	6.0%	5.0%

Table 9 compares the City's resignation rates to those of the cities we surveyed. Edmonton's resignation rates are in line with those of the other cities we surveyed. The City had below average rates in 2005 and 2006 and was slightly above average in 2007.

Table 9: Resignation Rates

	2007	2006	2005
Edmonton	4.3%	2.8%	1.9%
Surrey	3.7%	3.4%	3.6%
Winnipeg	1.8%	1.5%	1.1%
Vancouver	3.5%	2.5%	2.0%
Calgary	6.1%	4.3%	2.7%
2007 Average	3.9%	2.9%	2.3%

4.3.2. What are the potential impacts of turnover on the City?

Employee turnover is a normal and acceptable occurrence within an organization and should not be avoided entirely. Organizations need to understand their level of turnover and the associated impacts. Extensive resignations or turnover can impact the City's ability to deliver front line municipal services, productivity, employee engagement and to meet immediate organizational goals. Determining the exact cost of turnover is difficult, given the many direct and indirect costs associated with it. These costs impact all City Branches, not just the HR Branch.

The direct costs of turnover have a measurable impact on the organization's bottom line. Examples of these types of costs include:

- Recruitment costs to fill the vacancy, including HR salaries and overheads, advertising and search costs, and interview costs;
- Previous employee exit costs such as separation pay and processing;
- New employee costs such new-hire processing and orientation and training expenses.

Indirect costs of turnover are much higher and more difficult to quantify. Examples of these costs include:

- Delays in production and service;
- Dissatisfied customers and potential loss of customers and sales;
- Lower productivity of newer inexperienced staff;
- Reduced productivity due to remaining staff effort to train new staff;
- Loss of intellectual capital in both experience and corporate knowledge.

Saratoga Research Group calculates the Cost of Voluntary Turnover as the total of 50% of the annual pay of union employees who left the organization and 150% of the annual salary of management employees who left the organization each year. Using this

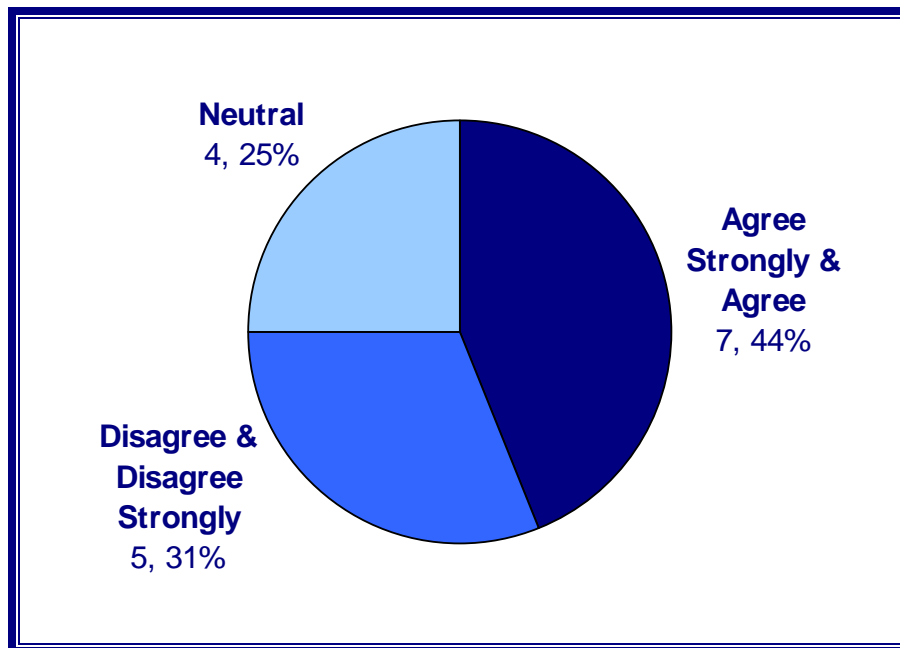
formula we calculated the City's cost of voluntary turnover at \$35 million in 2007, \$10 million higher than the 2006 calculated cost of \$25 million. It is important to state that the majority of these calculated costs are indirect costs as discussed above. They represent the potential impact of voluntary turnover to COE and cannot be directly identified in program budgets.

Currently, the Human Resources Branch has not determined acceptable turnover thresholds for the City, so we are unable to conclude whether or not this is an acceptable cost.

4.3.3. Are HR clients confident HR strategies will help them retain employees?

Based on our internal survey we have found that not all HR clients are confident that HR strategies will help them retain employees. (Figure 7)

Figure 7: Internal Survey of Confidence in HR Retention Strategies



Through our survey we found that 44% of respondents agreed with and 25% were neutral to the statement "You are confident that the human resource strategies provided by the Human Resource Branch will help you retain staff."

Survey respondent's comments tended to focus on issues affecting retention of staff and not just human resource functions. When we tried to determine the corporate policies and programs relating to staff retention, we were unable to easily assemble the information. Making employees aware of the programs and benefits offered by the City will help promote the City as an attractive place to work.

One of the Branch's strategies that respondents felt will help to increase their confidence is the completion of the Management Total Compensation Review. Set criteria and timelines for these types of reviews would also show employees that senior management and the Human Resources Branch are committed to making the City an attractive place to work. Within the union labour environment, the collective bargaining process addresses labour market conditions on an ongoing basis.

4.3.4. **Is the Branch effective in its role of helping retain employees?**

The Human Resources Branch is effective in helping the City retain employees; however, opportunities exist to increase effectiveness.

The City's turnover and resignation rates are in line with the other cities we surveyed. However, these rates are increasing as are associated impacts.

Client confidence in the Branch's retention strategies varies and we believe this is partly due to the increase in employee turnover in the past few years resulting from a very competitive labour market.

To help increase effectiveness in retaining employees, the Branch should:

- Determine turnover threshold levels for each job family, monitor rates and take action when rates exceed the threshold;
- Communicate the benefits and programs offered by the City that define it as an attractive place to work;
- Develop criteria and timelines to conduct periodic compensation reviews.

4.4. Workforce and Succession Planning

4.4.1. What is workforce planning?

Workforce planning is a “scientific” approach to plan for an organization’s current and long-term labour force needs. Workforce planning enables an organization to assess the current state of its labour force and develop labour strategies for continued success.

The key components of workforce planning are:

- Ongoing analysis of current workforce needs
- Predictive modelling of future needs
- Identification of key labour challenges
- Strategies to address key labour challenges such as:
 - Recruitment planning
 - Compensation
 - Employee training and development
 - Succession planning

4.4.2. What is succession planning?

Succession planning is a component of workforce planning that organizations perform to develop talent and leadership qualities in employees so they can replace key individuals as required. We examined how the City is culturally maturing with its succession planning efforts to date. We identified four key phases in a succession planning maturity model which are discussed below.

Phase A: Inconsistent Management Training - Training is inconsistent and the needs of leaders at various levels are not understood. Senior management does not support succession planning and development training and succession planning is focused only on senior management.

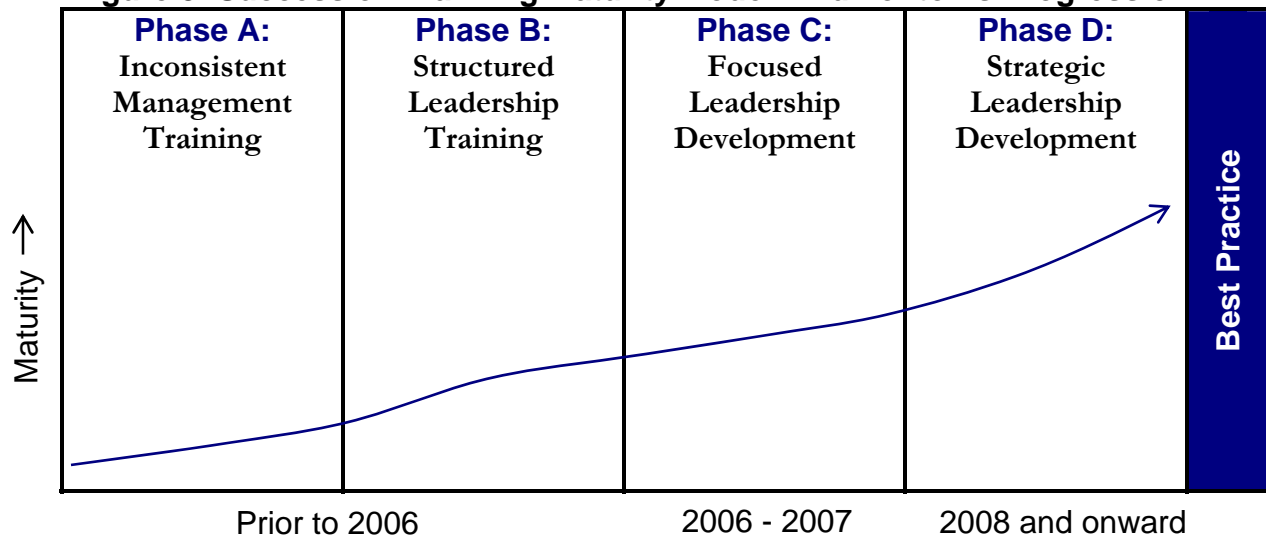
Phase B: Structured Leadership Training - Senior management begins to support succession planning activities and a structured approach to assess talent is beginning to take shape in the corporation.

Phase C: Focused Leadership Development - Management’s involvement in succession planning is heightened and evident at multiple levels of the corporation. The corporation begins to provide developmental opportunities to train leadership talent.

Phase D: Strategic Leadership Development (Best Practice)- Senior management champions the programs and holds other leaders accountable to developing employees. Succession planning is aligned with strategic priorities.

Figure 8 illustrates the City's progress through the key phases of succession planning on its way to "Best Practices."

Figure 8: Succession Planning Maturity Model – Edmonton's Progression



Prior to 2006: Prior to 2004, Management reviewed and assessed key positions when vacancies occurred. Beginning in 2004, the City became more structured in its leadership training efforts. The Human Resources Branch took on a more strategic and proactive approach to ensuring the City had talented people in place for key positions. Succession planning focussed on developing leadership talent.

2006-2007: In 2006, the Branch introduced a process where management could conduct talent reviews on key positions. The Branch supplied the tools, support and advice to the business units that wanted to conduct the reviews. This was not a mandatory exercise. In 2007 the City began to formalize its succession planning process. It began to identify key positions and chose to create a pool of talented employees with leadership capabilities. The organization can draw upon the people in the pool as required to fill key positions.

2008 and onward: The Branch has developed the Talent Management Plan for the City. The key elements of this plan identifies the future steps for succession planning and moves the City closer to succession planning best practices:

- Assess and align succession planning with organizational changes and corporate strategy
- Develop individualized development plan for key positions
- Monitor individual development plans
- Create or place key staff in development opportunities
- Provide senior level management support and accountability at all levels
- Provide performance measures to gauge program effectiveness and success

We found the City to be very progressive in its current level of succession planning implementation. Through our survey work of a number of other Canadian cities, we found Edmonton to be a leader in its sophistication and maturity of succession planning.

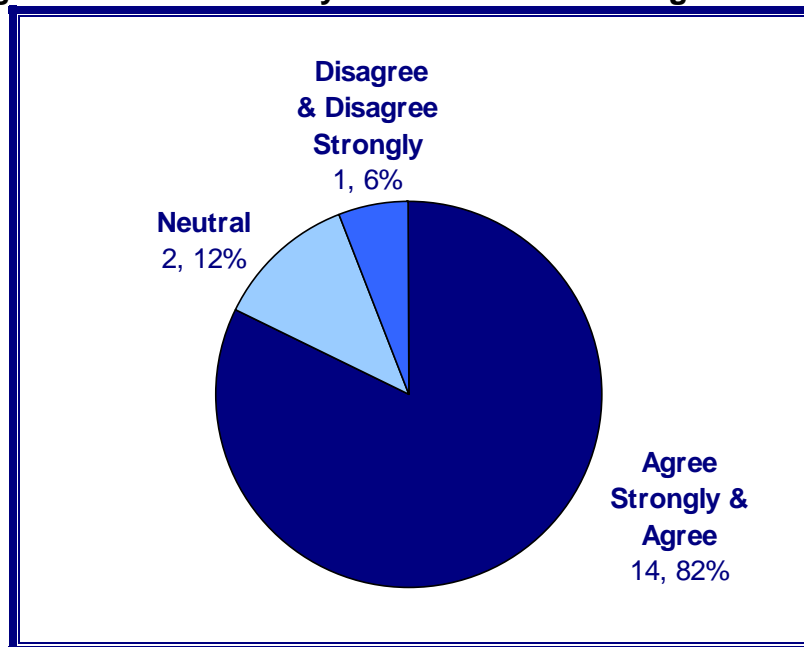
4.4.3. Is the Branch providing support for workforce planning?

Human Resources Branch has provided workforce planning support and our internal survey results indicate a high level of awareness of these efforts.

Beginning in 2007, the Branch prepared detailed workforce assessments for all City Branches. They have also shared these assessments with branch management teams. These assessments identify: workforce demographics such as age and tenure profile, projections on staff retirements, lost time rates, and short term disability results. The Branch produces these detailed workforce assessments annually as well as providing quarterly updates.

Our survey of Human Resources Branch's clients found that 82% of the respondents agreed with the statement, "The workforce data provided by the Human Resources Branch enhanced your awareness of your area's future workforce challenges" (Figure 9).

Figure 9: Internal Survey of Workforce Planning Awareness



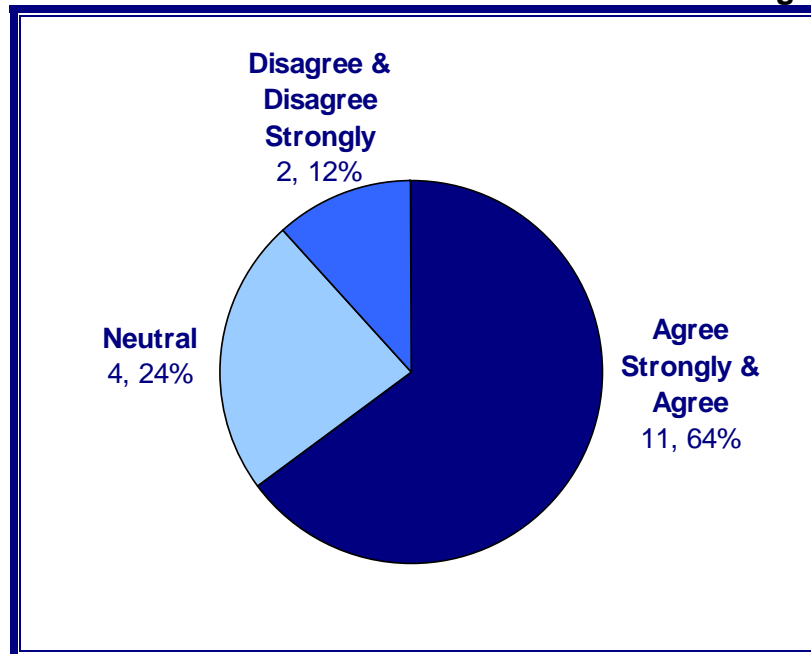
4.4.4. Are business areas satisfied with workforce planning support?

Based on our internal survey we have found that most HR clients are satisfied with the workforce planning support provided by the Branch. However, the Branch needs to sustain its efforts over the long term to increase satisfaction.

Our survey of a sample of Human Resources Branch clients found that 64% of respondents agreed with the statement, “You are satisfied with the support provided by the Human Resource Branch in developing and maintaining your workforce plan” and 24% were neutral (Figure 10). The neutral responses are not unexpected given that workforce planning is a relatively new initiative.

The two respondents that disagreed stated that the Branch could be even more proactive in addressing their workforce planning issues.

Figure 10: Customer Satisfaction with Workforce Planning Support



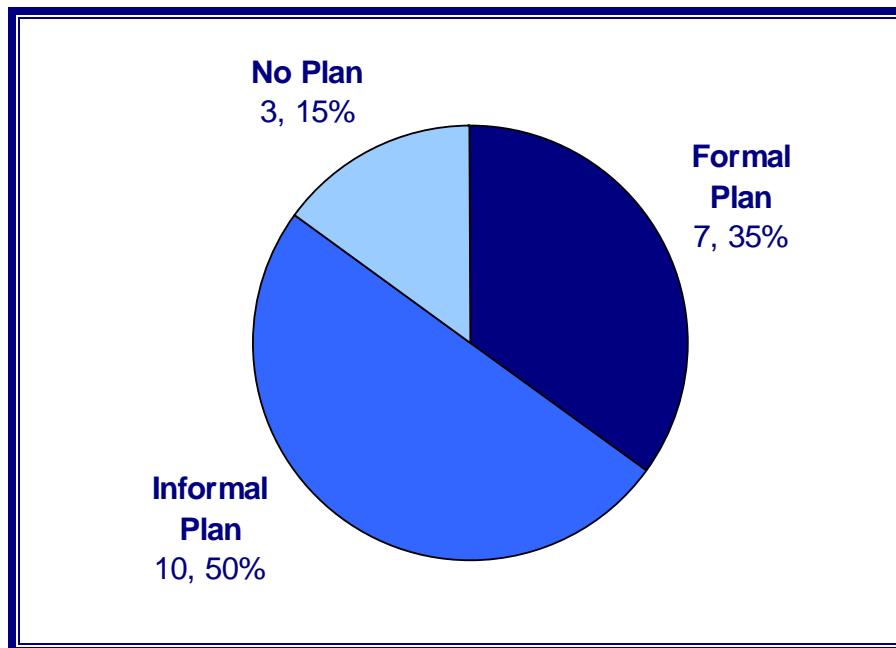
4.4.5. Does the City have up-to-date succession plans?

Our survey results show that 85% of business areas have a formal or informal succession plan. Much of the succession planning in business areas is still performed on an informal basis.

As shown in Figure 11, 35% of those surveyed had prepared a formal or written succession plan while another 50% had conducted informal succession planning, but had no written plan. An additional 15% of those surveyed have not conducted any succession planning at all.

These results indicate that the Human Resources Branch has made some progress on succession planning; however, we believe more work is necessary to culturally ingrain succession planning as an ongoing part of business planning. It is important to note that operating managers play the key role in establishing succession plans for their work areas.

Figure 11: Internal Survey Results on Up-to-Date Succession Plans



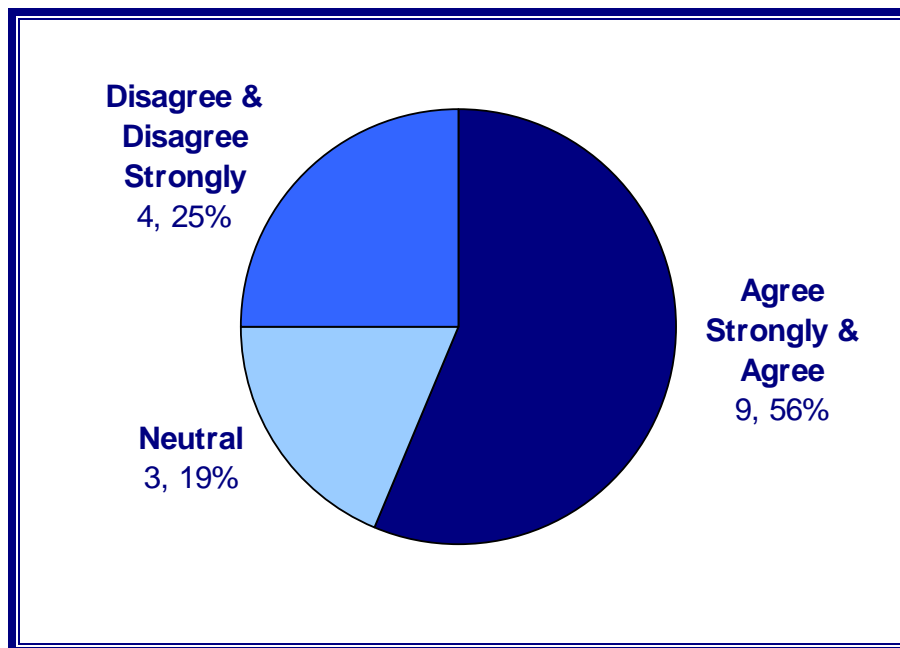
4.4.6. Are business areas satisfied with succession planning support?

Our internal survey results indicate varying levels of satisfaction with succession planning support.

The results of our internal survey show that 56% of respondents agreed with the statement, “You are satisfied with the support provided by the Human Resource Branch in developing and maintaining your succession plan.” However, 25% of those surveyed were not satisfied with the support and another 19% were neutral (Figure 12).

Clients commented in a positive manner that human resource planning information has helped them to better understand the labour challenges that they will be facing in the future. Clients commented in a negative manner that role clarity, increased communication and even more support are needed from the Branch.

Figure 12: Client Satisfaction on Succession Planning



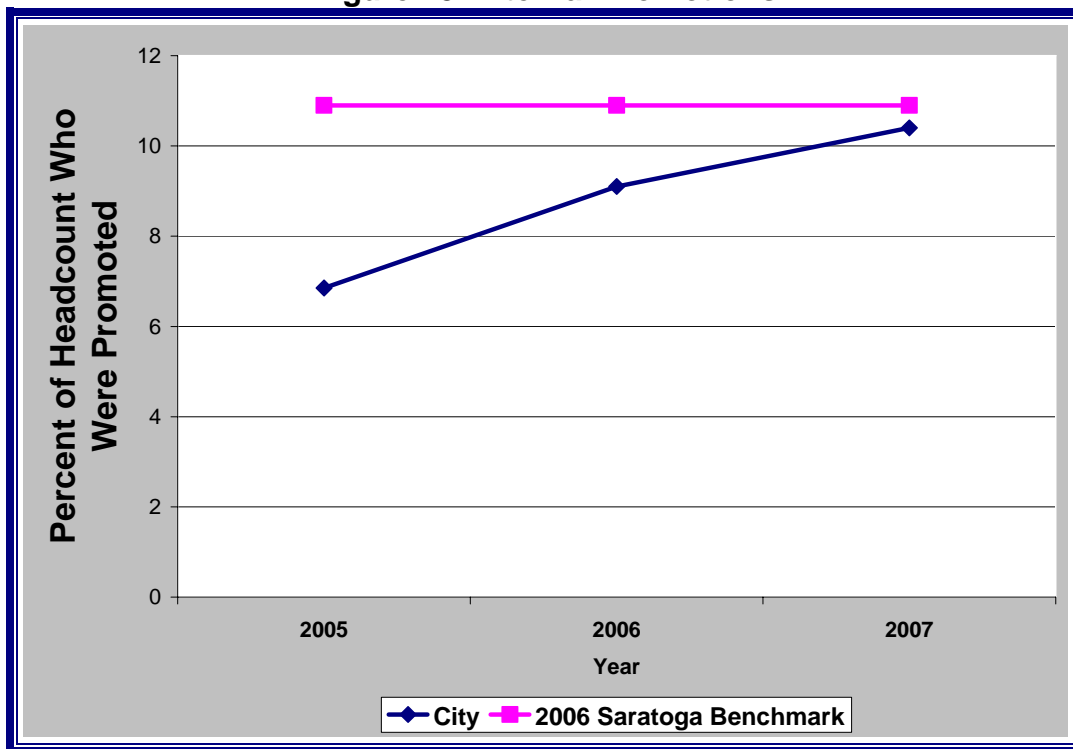
4.4.7. Is the City’s succession planning working?

The City is internally developing talented new leaders as shown by the increasing number of internal promotions.

As stated earlier, the City is progressing through the stages of succession planning. They are currently in the final phase and working towards best practice. To gauge the effectiveness of their work so far in succession planning we used a standard industry measure: “percent of headcount who were promoted.”⁵

The results shown in Figure 13 illustrate that the City of Edmonton’s number of internal promotions has increased in the last two years. The City of Edmonton is also approaching the 2006 Saratoga industry benchmark guide. This benchmark guide is the median value of the organizations surveyed.

Figure 13: Internal Promotions



⁵ Internal promotions methodology: Results include all promotions of permanent union and management employees that occurred within the corporation for each year.

4.4.8. Are workforce and succession planning activities effective?

Overall, the Human Resources Branch is effective in providing support on workforce and succession planning activities. However, we believe the Branch must continue efforts in order to further ingrain succession planning within the organization.

The Branch has made significant progress in workforce planning and its clients indicated a high level of awareness of these activities with moderate overall satisfaction to date. We also believe the Branch's efforts have moved the organization towards best practice in succession planning. Although not all areas have formal succession plans, a high degree of awareness for the need for such plans exists. Operating managers play the key role and must work with the Branch to formalize succession plans.

The Branch has successfully initiated the succession planning process, but we believe it will take several years to culturally ingrain succession planning as an ongoing business planning practice. We therefore believe that the Branch should continue to implement the succession planning strategy. The Branch needs to regularly monitor and report progress on a corporate basis.

5. Conclusions and Recommendations

We recognize that the City and the Human Resources Branch face enormous challenges given the current intensity of the labour market within Western Canada. Our primary objective with this branch audit was to determine if the services provided by the Human Resources Branch are effective, efficient, and economical in addressing the human resource needs of the City of Edmonton. To address these questions, we focussed our audit programs on three high risk areas and the Branch's financial performance.

We concluded that the Branch is operating in a cost effective manner.

We reviewed the financial data for the Human Resources Branch and found that no significant program budget variances have occurred. The Branch's actual costs have risen substantially in the last few years due to organizational changes required to align with the new Corporate Human Resources Strategy.

We researched other cities and found that the Branch's cost per employee is comparable to other cities. The industry benchmark data further showed that the Branch's costs in relation to the City's total operating costs are at the median level meaning 50% of those organizations surveyed have higher cost ratios.

The Human Resources Branch staff levels have remained relatively constant since 2003 (up 3%) while civic administration staff numbers have grown by 16%. The City's human resources staff ratios are comparable to the other municipalities we surveyed. The industry benchmark comparison showed that the City is at the 75 percentile level meaning only 25% of the organizations surveyed supported more staff per human resources employee.

We concluded that the Human Resources Branch has effective and efficient processes to recruit new employees.

The Branch has not achieved its targeted Time-to-Fill rate of 52 days; however it is at a reasonable level. We compared the City's Time-to-Fill rate to other cities and found that it is near the average of other cities surveyed. Also, the Branch is moving to improve recruitment efficiency with the introduction of an electronic recruitment system. No external or industry benchmark information was available for comparison of recruitment costs so we are unable to provide a conclusion whether these recruitment services are economical.

The Branch's clients indicated varying levels of confidence in its ability to attract qualified candidates, which is somewhat expected given a very competitive labour market. Our review of the recruitment process found that the process is fair and open.

The Branch has proactively engaged in several recruitment initiatives to support and promote a diverse labour workforce.

We concluded that the Human Resources Branch is effective in helping the City retain employees; however, opportunities exist to increase effectiveness.

Turnover and resignation rates at the City are in line with the other cities we surveyed. These rates are rising and impacts associated with them are increasing. Client confidence in the Branch's retention strategies varies. This is potentially due to the increase in employee turnover in the past few years and the competitive labour market.

To help increase effectiveness in retaining employees:

1. *We recommend that the Human Resources Branch communicate to all employees the benefits and programs offered by the City of Edmonton that define it as an attractive workplace.*
2. *We recommend that the Human Resources Branch develop criteria, including timelines, for periodic compensation reviews.*
3. *We recommend that the Human Resources Branch determine acceptable turnover thresholds for each job family and monitor the actual turnover rates, taking appropriate action when a rate exceeds the acceptable level. They should also assess these thresholds periodically to ensure they are still appropriate.*

We concluded that the Human Resources Branch is effective in providing support on workforce and succession planning activities. We believe that the Branch must continue efforts in order to further ingrain succession planning within the City.

The Branch has made significant progress in workforce planning and the Branch's clients indicated a high level of awareness of these activities with overall moderate satisfaction to date. We also believe the Branch's efforts have moved the organization towards best practice in succession planning. Although not all areas have formal succession plans, a high degree of awareness for their need exists. The Branch has successfully initiated the succession planning process. We believe it will take several years to culturally ingrain succession planning as an ongoing business planning practice.

4. *We recommend that Human Resources Branch continue to implement the succession planning strategy and regularly monitor and report on progress on a corporate basis.*

We wish to acknowledge and thank the Human Resources Branch staff and their clients for their efforts and openness during this audit.

6. Management's Response to Recommendations

Management's Response: In 2006 the Human Resource Branch worked with the Conference Board of Canada to develop a predictive labour forecast model and Corporate Human Resource Strategy.

In 2007 the Senior Management Team approved a three year Corporate Human Resource Strategy that identified the focus areas of Leadership, Talent and Performance. To implement the strategy the Human Resource Branch was restructured to focus on improved workforce data and analysis, job family recruitment, employment outreach, specialized labour relations, compensation and employee safety and health services, strategic support to clients and implementing the Corporate Service business model of operational excellence in business transaction areas.

Also, in 2007 the HR Branch implemented year one of the Corporate HR Strategy focusing on implementing the new structure, employee outreach initiatives with community partners such as the Mennonite Centre for Newcomers, Métis Employment Centre etc. job family recruitment and annual recruitment planning, quarterly HR performance reporting to Senior Management Team and several operational improvements.

In the past two years there has been a sharp increase in recruitment activity that has placed a strain on HR resources. For example recruitment activity for permanent staff increased by 38% and Temporary staff increased by 33%. Increased recruitment activity is expected to continue as greater numbers of employees retire, turnover moves towards industry norms and City services expand.

Continued implementation of the three year Corporate HR Strategy and the recommendations below will position the corporation well to face the difficult workforce challenges that lie ahead.

OCA Recommendation #1: *We recommend that the Human Resources Branch communicate to all employees the benefits and programs offered by the City of Edmonton that define it as an attractive workplace.*

Management's Response: We accept the OCA recommendation. While recent changes to the Web site have occurred to better present benefit information to staff and potential candidates we accept the suggestion to further improve. The Communication Branch will be engaged to assist us in presenting a better employment package to employees that clearly articulates the benefits and programs offered by the City that make it an attractive workplace. To be completed by the end of 2008.

OCA Recommendation #2: *We recommend that the Human Resources Branch develop criteria, including timelines, for periodic compensation reviews.*

Management's Response: We accept the OCA recommendation. It is important to note that rates are reviewed as a regular part of collective bargaining process and a new provision in some collective agreements set out a procedure to review rates during the term of the collective agreement. In the case of non union staff rates have been reviewed on an ad hoc basis. As part of the Corporate HR Strategy a new Management Total Compensation program is being developed and implemented during 2008. As part of that program a timeline for regular market reviews will be established. To be completed as part of new Management Compensation Program.

OCA Recommendation #3: *We recommend that the Human Resources Branch determine acceptable turnover thresholds for each job family and monitor the actual turnover rates, taking appropriate action when a rate exceeds the acceptable level. They should also assess these thresholds periodically to ensure they are still appropriate.*

Management's Response: We accept the OCA recommendation and expand on it. The HR Branch tracks turnover as well as a number of other workforce measures. When considering whether additional support is required for a specific job family the HR Branch considers turnover, forecasted retirements, employment growth and other external labour market factors. By considering additional factors we are able to be proactive rather than reactive. For example in the past the turnover rate for Engineer positions was low but external labour market factors identified the need to establish a review for engineering related positions. This review allowed the City to be proactive and maintain a low turnover rate. In another case a review of workforce data identified the need for a project focused on transit operators. While turnover for the Transit group was relatively low the increasing number of forecasted retirements and expansion of service identified this job family as a tier one job family because of the large recruitment numbers. Currently three job family related initiatives covering assessment, financial and temporary positions are being supported by the HR Branch.

The Human Resource Branch will continue to consider a broader range of factors when determining when projects should be resourced and initiated. Moving from informal to more specific turnover thresholds levels will be established during the 2009 Workforce planning discussion with clients that will occur during the fall of 2008.

OCA Recommendation #4: *We recommend that Human Resources Branch continue to implement the succession planning strategy and regularly monitor and report on progress on a corporate basis.*

Management's Response: We accept the OCA recommendation. The HR remains committed to succession planning and will continue to work with clients to implement activity in this area. Next regular report to the Senior Management Team will occur in June.

The OCA has reviewed management's response to our recommendations and find them acceptable.