METRO

# Leave Management:
*Improve monitoring capacity*

September 2010

A Report by the Office of the Auditor

Suzanne Flynn
*Metro Auditor*

Audit Team: *Suzanne Flynn, Metro Auditor*
*Kathryn Nichols, Principal Management Auditor*

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# MEMORANDUM

September 23, 2010

To: Carlotta Collette, Acting Council President
Rod Park, Councilor, District 1
Carl Hosticka, Councilor, District 3
Kathryn Harrington, Councilor, District 4
Rex Burkholder, Councilor, District 5
Robert Liberty, Councilor, District 6

From: Suzanne Flynn, Metro Auditor

**Re: Audit of Employee Leave Management**

The attached report covers our audit of the differences in employee leave patterns among Metro Departments and the need to improve management. This audit was not included in our FY2009-10 Audit Schedule, but was added after concern had been expressed on Metro's Ethics Line about management practices regarding the use of sick leave. The audit was initiated to review employee use of leave agency-wide and determine if there were differences.

Metro does not routinely review employee leave patterns overall. There are benefits from performing such an analysis. Understanding underlying causes between differences in these patterns among departments can lead to a better understanding of employee needs and potential areas for improvement. This report was intended to provide a baseline for Metro management of employee leave use in FY2007-08 and FY2008-09. It also demonstrates potential measures that Metro might adopt to do this type of analysis on a regular basis.

We have discussed our findings and recommendations with Scott Robinson, Deputy COO, Mary Rowe, HR Director and Teri Dresler, General Manager, Visitor Venues. A formal follow-up to this audit will be scheduled within 1-2 years. We would like to acknowledge and thank the management and staff in the departments who assisted us in completing this audit.

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## Summary

Managing employee attendance can save money and improve the effectiveness of services. Most experts agree that leave cannot be managed without first analyzing employees' use of leave. Because Metro did not monitor or analyze employee leave agency-wide, it did not have the ability to manage employee attendance.

The Auditor's Office received Ethics Line reports that seemed to indicate different leave practices existed in the different departments. This audit was added to the regular audit schedule in March 2010 in response to those reports. The purpose was two-fold: 1) to assess the incidence and cost of employee leave, and 2) to determine if there were differences among Metro departments and employee categories.

Metro employees had several categories of leave, including holidays, vacation, sick and the federally mandated Family Medical Leave. After reviewing two fiscal years of leave-eligible employee data, we found that total leave hours as a percent of total work time available was similar to national and local rates. However, when we separated the data by department and the employee categories of union hourly, union salaried, non-represented hourly and non-represented salaried, there were significant differences.

Two other measures of leave use confirmed these differences. We calculated the annual average days of total leave taken by employees and the average percentage of employees using leave by week. There was a difference among departments of 22 days in FY2007-08 and 15 days in FY2008-09 in the average days that employees took leave. In any given week, 34% of Metro employees took some amount of leave. Some departments had rates higher than others.

According to best practices, a key element of managing leave effectively is accurate measurement and monitoring. An organization should confirm if there is a problem, identify the type of leave, highlight some of the underlying causes and benchmark leave levels to other similar organizations.

We estimated the direct payroll cost of leave over the two-year period to be $11.6 million. This represented about 14% of total payroll costs. Because of the variability we saw among departments and employee categories, we concluded that there was an opportunity to better manage employee leave.

Metro has two standards for defining misuse of sick leave. One is found in contract language and the other in personnel policy. We applied both of these standards and found that some employees might be misusing sick leave privileges. Sick leave misuse can cause poor morale and loss of productivity. With better analytical capability, Metro would be able to identify and manage leave misuse.

*Summary Cont'd*

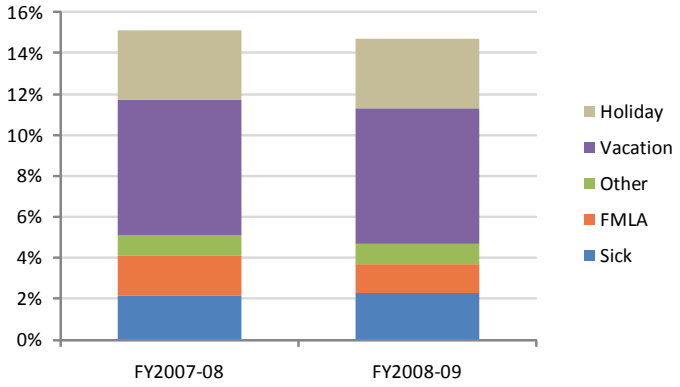
We recommend that Metro improve the quality of data available and its analytical and management capabilities. This audit could be a baseline for future analysis. Metro should assess underlying causes of differences in leave use and develop strategies to better manage leave.

## Background

Metro provided several types of leave to full and part-time employees as a benefit. Full-time employees received nine paid holidays, two personal leave days, 104 hours sick leave and vacation leave at a rate based on tenure.

Employees in three departments, MERC, Zoo and Parks/Environmental Services comprised about 59% of Metro's leave-eligible workforce. Overall, 64% of Metro's leave eligible staff was unionized. In FY2008-09, employees took on average 34.7 days of leave (includes all leave). This represented 15% of the total work time available.

**Exhibit 1**
Leave as a Percent of Total Work Time Available




*Source: Auditor's Office analysis*

## Scope and methodology

The purpose of this audit was to determine the financial effect of employee leave in incidence and estimated cost. Analysis was conducted to determine if:

- Leave rates were different among departments.
- Leave rates were different among employee categories (represented and non-represented, hourly and salaried, part and full-time).
- There were potential patterns or episodes of leave that suggested misuse.

We also conducted analysis to quantify the direct cost of leave benefits provided and compare Metro to other jurisdictions.

To accomplish our objectives, we extracted employee data for two fiscal years, 2007-2008 and 2008-2009, from Metro's time and attendance system (Kronos) and the human resource management system (PeopleSoft HR). Metro relied on PeopleSoft HR as the system of record and considered this information more accurate. However, detailed records of hours by day were found only in the Kronos system. In combining data from both systems, we took steps to ensure the reliability and accuracy of the information. Excluded from the analysis were employees who were temporary or were part of a union that did not provide for leave benefits in the contract.

For the purposes of this analysis, when we analyzed leave overall, we categorized leave into five areas:

- Holiday
- Vacation (includes personal holidays)
- Other (includes bereavement, administrative, disciplinary, jury duty, military leave, bonus leave, workers comp)
- Sick
- Family Medical Leave Act (federal)

When we analyzed potential leave misuse, we excluded all leave except holiday, vacation and sick leave. Leave that was in conjunction with worker's compensation was also excluded.

We calculated three measures to analyze leave patterns by individual leave type and total leave. These were:

- Leave to Work-Time-Available Rate (leave hours/estimated total work hours)
- Annual Average Time Absent (leave/all employees)
- Weekly Absent Rate (employees absent during week/all employees). For this measure, we excluded holiday leave because most employees would be out in each week that has a holiday. If included, it would have artificially inflated this rate.

We also interviewed Metro staff, contacted the City of Portland and Multnomah County, and reviewed literature to collect best practices in leave management.

This audit was not on the FY2009-10 Audit Schedule but was added to the schedule in March 2010 as the result of concerns reported on Metro's Ethics Line. 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.

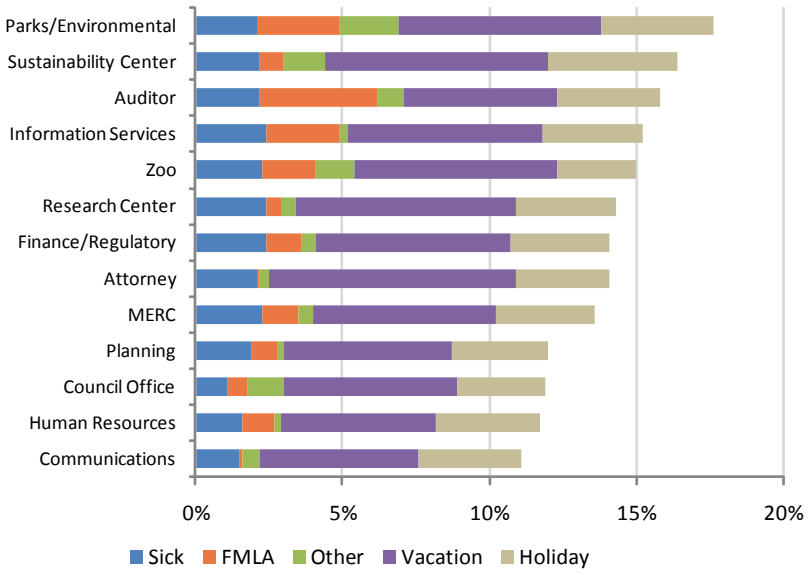
## Results

One measure often used to study leave usage is the ratio of leave to total work-time-available. We found examples of this measure at a national level in the US, Canada and England and in reports from Multnomah County. We calculated this measure for Metro employee leave for fiscal years 2007-08 and 2008-09 and determined that there were differences by department and employee category.

When compared to a 2007 national study, Metro's rates were similar. Metro's overall rate was 15.1% in FY2007-08 and 14.7% in FY2008-09. We estimated the direct payroll costs of leave totaled $11.6 million over the two-year period. We estimated this to be 14.4% of total payroll costs in FY2007-08 and 13.8% in FY2008-09. According to the 2007 study of 455 organizations, direct costs of absence were 14.2% of payroll, similar to our estimates for Metro. Total leave cost (including indirect costs) would be higher. This same study found that the total cost (direct and indirect) for all major leave categories was 36% of payroll.

When calculated by department, the leave to work-time-available rate showed marked differences. This rate varied from 11.1% to 18.7% among Metro departments. These differences were statistically significant.

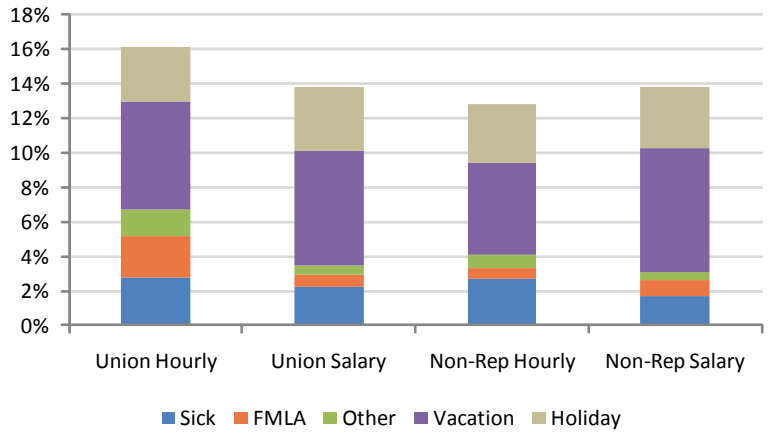
**Exhibit 2**
Leave to Work-Time-Available Rate by Department FY2008-09




*Source: Auditor's Office snalysis*

We also reviewed leave to work-time-available rate by the employee categories union hourly, union salaried, non-represented hourly and non-represented salaried. Consistent with research elsewhere, union represented hourly employees had a higher percentage of work time lost to leave.

**Exhibit 3**
Leave to Work-Time-Available by Employee Category FY2008-09




*Source: Auditor's Office analysis*

Although not exactly comparable, Multnomah County completed an analysis of leave in 2008. While the analysis included both full and part-time regular employees similar to this study, the calculation of total hours worked was slightly different. Despite this, the comparison confirmed to some degree the patterns we saw in this study.

**Exhibit 4**
Comparison of Metro Leave to Work-Time-Available Rate to Multnomah County

| | Metro FY2007-08 | Multnomah County FY2007-08 |
|---|---|---|
| Sick | 2.2% | 3.2% |
| FMLA | 1.9% | 1.2% |
| Other | 1.0% | 2.7% |
| Vacation | 6.6% | 6.4% |
| Holiday | 3.4% | 3.8% |
| Total | 15.1% | 17.3% |

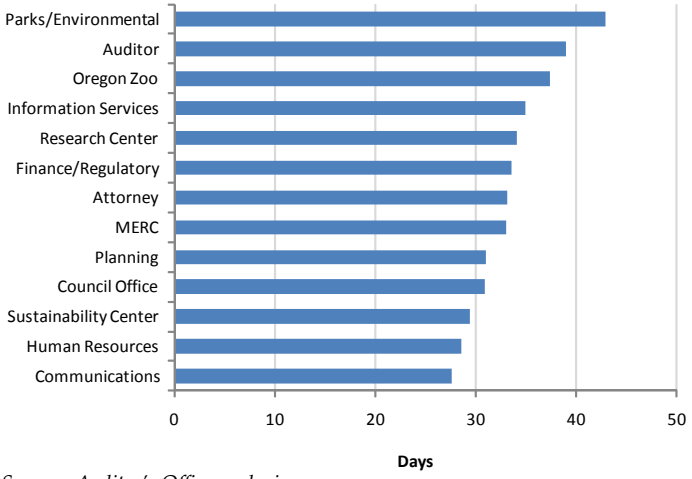
*Source: Auditor's Office analysis, Multnomah County Average Annual Sick Leave Report, February 2008.*

## Other measures also show differences

In addition to the leave to work-time-available rate, we also calculated the average leave per employee and the average percentage of employees absent at any time during the week. Each of these measures has been used by other jurisdictions and provided a slightly different perspective.

Metro leave eligible employees were absent on average 36.2 days in FY2007-08 and 34.7 days in FY2008-09. As with the leave to work-time-available rate, there were significant differences among departments and employee categories. There was a difference among departments of 22 days in FY2007-08 and 15 days in FY2008-09. In both years, hourly union employees took the most time off, an average of 38.6 days. This could be because of a lack of flexibility in the work schedule due to the hourly status.

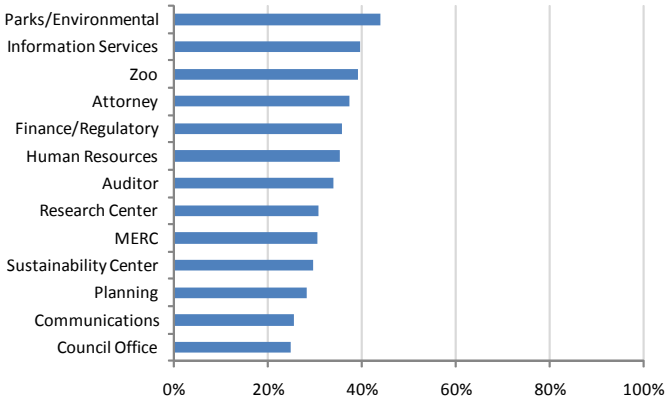
**Exhibit 5**
Average Days Absent
FY2008-09




*Source: Auditor's Office analysis*

In any given week in fiscal years 2007-08 and 2008-09, 34% of Metro employees took some form of leave (Weekly Absent Rate). There were statistically significant differences among departments, with rates at Parks and Environmental Services being the highest in both years.

**Exhibit 6**
Weekly Absent Rate
FY2008-09




*Source: Auditor's Office analysis*

## Better leave management possible

Research shows that managing attendance can save money and improve effectiveness. Most experts agree that leave cannot be managed without first analyzing leave patterns. A key element of managing leave effectively is accurate measurement and monitoring. An organization should confirm if there is a problem, identify the type of leave, highlight some of the underlying causes and benchmark leave levels to other similar organizations. The fact that we found differences in the use of leave among departments and employee category suggests that Metro could benefit from leave analysis.

There are many reasons why some departments and employee groups could have higher rates of leave use. Some studies have found that age, gender and marital status have an effect on the use of leave. Similarly, we found some significant differences at Metro in leave use by gender, marital status, age and tenure on the job. Older and more tenured employees had higher rates of leave. There were few differences in the average age by department, but employees at the Research Center, Information Services, Zoo and at Parks and Environmental Services had longer tenure with the organization, which might affect their leave rates.

Vacation and holiday leave are planned and, in the case of vacation, subject to supervisory approval. Sick and FMLA leave present challenges and potentially can affect work productivity to a greater degree. Sick leave is primarily unplanned. The effect of unplanned leave can be uneven services, reduced productivity or missed deadlines. Misuse of sick leave can also cause morale problems with employees who use their leave as intended. FMLA leave, while planned, can be longer term than other leave, up to 12 weeks within a one-year period. As a result, organizations generally focus on sick leave and FMLA as leave that needs additional management.

Regionally, we found examples of local governments that regularly review employee leave patterns. The City of Portland has analyzed full-time employee sick leave annually since the early 1990's. Each spring, it produced a report that included the citywide full-time employee average sick leave amount for the previous calendar year. The measure related to a union contract definition of sick leave abuse. One of the contract criteria in determining abuse was if an individual employee's sick leave use was above the citywide average.

Multnomah County first analyzed leave data in 2008 because of layoffs and the need to manage leave better. A committee was formed that reviewed sick leave use. The County reported one of the benefits of the analysis was that they were able to identify employees who might benefit from intermittent FMLA leave. It was also an "eye-opener" for some department directors who were unaware of the extent of sick leave use. The County has recently updated this study for sick leave use only and has re-activated the committee. The Sheriff's Office is designing software that will identify potential abuse and will be used by all Departments once it is completed.

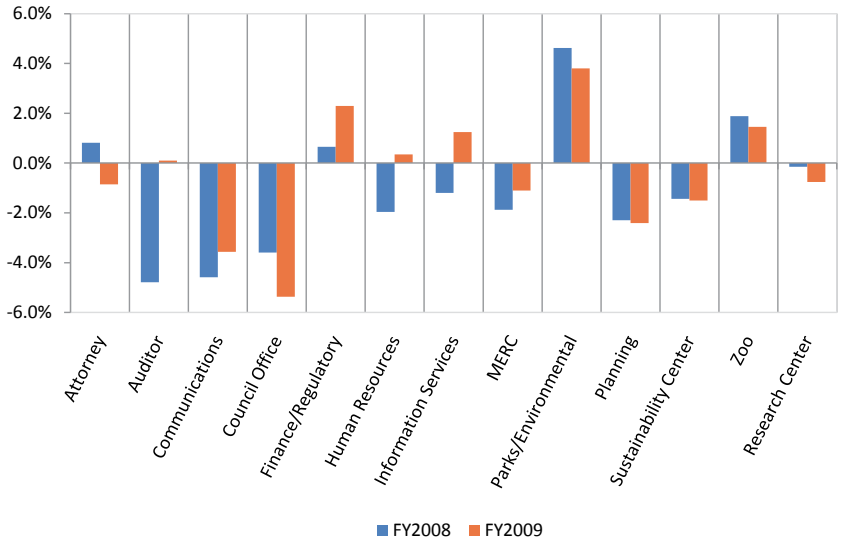
Metro does not systematically analyze leave information to determine patterns or underlying causes. We reviewed Metro's time and attendance software to determine if it was possible for a manager to look in a systematic way at employee leave. We found that it was only possible to look at total leave by employee or work group. This is not sufficient to determine if leave could be better managed.

## Variance in sick leave use suggests potential for improved management

Metro full-time permanent employees earn sick leave at the rate of 104 hours annually. Part-time permanent employees earn sick leave proportionate to the percent of full-time hours worked. Sick leave accrues and has no limit for the total that can be accrued. It is designed for employees who are temporarily unable to work due to illness or doctor's appointments. It can also be used when a member of the family is ill and needs care.

Our analysis of leave records found 90% of employees in FY2007-08 and 87% in FY2008-09 took sick leave. This accounted for about 2% of total work time available in each year. On average, employees took 5 days of sick leave. On a weekly average, about 11% of employees took some amount of sick leave. The differences among departments in average days taken of sick leave (Exhibit 7) and average percent of employees out in a week were statistically significant. Differences in all of the measures were statistically significant by employee category.

**Exhibit 7**
Percent Above or Below Average Sick Days Taken




*Source: Auditor's Office analysis*

When compared to the annual sick day average of all employees at Metro, the Parks and Environmental Services employee average was 30% higher. These differences cannot necessarily be attributed to sick leave misuse and may be related to other reasons, such as work conditions, poor morale, or situational differences such as age, marital status or gender. Understanding the underlying causes could assist Metro in better managing employee leave and its impact on operations.

## Potential sick leave misuse identified

According to Metro personnel policy, sick leave was not to be used for personal time off or to extend holidays or vacation leave. Misuse of sick leave was cause for disciplinary action.

Several union contracts with Metro had language that defined criteria to determine sick leave misuse. Generally, misuse was defined as either exhausting all sick leave or using five days in the previous six month period. One union contract provided that sick leave that involved a single incident and was documented by a doctor's statement or incidents of FMLA, Worker's Compensation, or Americans With Disabilities Act were excluded. Metro was required to give the employee notice and to ask for an explanation prior to any disciplinary actions.

Taking a very conservative approach, we identified employees who might be misusing sick leave based on the union contract standard. There is no defined standard for non-represented employees. When applied to all Metro employees, we identified about 8% of employees in FY2007-08 and 7% in FY2008-09 that met the criteria. Applying the criteria to employees in unions with contract standards, there were 15% in FY2007-08 and 11% in FY2008-09 who met the criteria. Two-thirds of these unionized employees were from three departments: MERC, Parks and Environmental Services and the Zoo. We found nineteen employees who used sick leave in excess of contract standards in both fiscal years.

Our analysis also included a review of sick leave used either before or after holidays or vacation. This would be a violation of Metro's personnel rules. We excluded from the analysis any leave that was in conjunction with other types of leave, such as worker's compensation, bereavement, jury duty or administrative. We identified employees who had multiple episodes of vacation or holiday leave combined with sick leave at either the beginning or end of the leave episode. We examined each of these episodes in a more thorough and detailed manner and made a judgmental determination if it was (1) not misuse, (2) possible misuse or (3) very likely misuse. We defined an episode as "very likely" if there was a repetitive pattern.

**Exhibit 8**
Potential Sick Leave Misuse Summary

| | FY2007-08 | FY2008-09 |
|---|---|---|
| **Sick Leave in excess of contract amounts** | | |
| Percentage of all Metro employees | 8.4% | 6.8% |
| Percentage of employees in unions with standards | 14.5% | 11.0% |
| **Sick Leave used with vacation/holiday** | | |
| Employees with possible or very likely misuse | 9.3% | 7.1% |
| Employees with very likely misuse | 4.8% | 3.1% |

*Source: Auditor's Office analysis*

In FY2007-08, 68 employees possibly or very likely misused sick leave by using it before or after a holiday or vacation on 146 occasions. In FY2008-09, 53 employees possibly or very likely misused sick leave on 139 occasions. Sixteen of the employees had episodes in both fiscal years. If each of these episodes were found to be misuse, it would represent a productivity loss of 102.5 days in FY2007-08 and 127.9 days in FY2008-09. Over one-half of these employees were employed at Parks and Environmental Services and the Zoo.

**Exhibit 9**
Potential Days Lost to Sick Leave Misuse

| | FY2007-08 | FY2008-09 |
|---|---|---|
| Total days lost | 102.5 | 127.9 |
| Average days per employee | 1.5 | 2.4 |

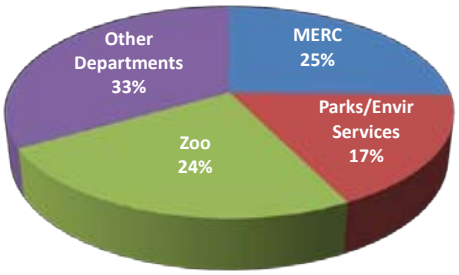
*Source: Auditor's Office analysis*

## Potential for improved management of FMLA use

The federal Family and Medical Leave Act of 1993 required employers to provide up to 12 weeks of unpaid, job-protected leave per year. According to Metro personnel rules, employees can chose whether the leave shall be paid from accrued personal leaves (including vacation leave, sick leave, compensatory time leave, personal holiday leave) or be unpaid.

Based on a US Department of Labor survey (2000), the most common reason for taking leave was for the employee's own health. About 22% of Metro leave-eligible employees took FMLA leave in FY2007-08 and 20% in FY2008-09. On average, these employees took 169 hours in FY2007-08 and 129 hours in FY2008-09. More than half of the employees who took FMLA leave were from three Metro Departments (MERC, Parks and Environmental Services, and the Zoo). We estimated the direct cost of FMLA leave to Metro was $684,400 in FY2007-08 and $378,600 in FY2008-09.

**Exhibit 10**
Percent of Employees with FMLA Leave by Department FY2008-09




*Source: Auditor's Office analysis*

## Metro employee data limited

To conduct this audit, we extracted data about employees and employee leave from two different sources, an automated time and attendance system (Kronos) and human resource information system (PeopleSoft HR). Metro considered its PeopleSoft software as the system of record and that this system had the most accurate data available. However, detailed daily records with hours worked and leave was only available in the Kronos system. Data at the day level is needed to analyze leave patterns for misuse. Because of inconsistencies between the two automated systems, ensuring that the data was accurate and reliable required considerable additional work.

We reviewed management reports to determine if Metro was able to systematically review employee leave and do analysis for misuse patterns. The human resource information specialist prepared regular agency-wide reports on number of employees (census report) but this did not include leave hours used. The specialist stated that reports regarding individual employee's leave were prepared occasionally on a manager's request. We found one report available in Kronos that could be used to generate total regular hours and leave by work location. This report has the potential of providing data needed to calculate lost rate time by leave type. Metro has not studied leave patterns agency-wide or in a systematic way.

## Recommendations

**To improve the quality of data, Metro should:**

1. Standardize employee data entered into the time and attendance system.
2. Improve data quality and agreement across the two software systems, Kronos and PeopleSoft HR.

**To improve analytical and management capabilities Metro should:**

1. Determine if current functionality is available to produce agency-wide leave reports that allow comparisons among departments and other jurisdictions.
2. If current capability is not sufficient, Metro should put a plan in place to add capacity.

**To improve leave management, Metro should:**

1. Assess underlying causes for differences in leave use by department and employee class.
2. Develop strategies to better manage leave.
3. Develop processes to identify and address leave misuse.
4. Collaborate with local jurisdictions to benchmark leave measures.

# MANAGEMENT RESPONSE

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Metro | *People places. Open spaces.*

Date: September 14, 2010

To: Suzanne Flynn, Metro Auditor

From: Michael Jordan, Chief Operating Officer
Scott Robinson, Deputy Chief Operating Officer
Mary Rowe, Human Resources Director
Teri Dresler, General Manager Visitor Venues

Cc: Rachel Coe, Information Services Director
Amy Davis, Payroll Supervisor
Jodi Wilson, Benefits Program Manager

Re: Management Response to Leave Management Audit

The following represents our response to the audit report which will be issued by your office later this month. Current staff is committed to working to address issues raised. The information provided in the audit will serve as a solid baseline in moving forward with managing leave usage. We will continue to take action to properly address the recommendations provided in the audit.

**Response to Recommendations in the Auditor's Report**

The following summarizes management's response to the specific recommendations noted in the audit report.

**Recommendation:**

**To improve the quality of data, Metro should**

1. **Standardize employee data entered into the time and attendance system.**
2. **Improve data quality and agreement across the two software systems, Kronos and PeopleSoft HR.**

**Response:** Human Resources is working in partnership with Information Services and Finance to review the payroll and benefits processes. A project plan has been developed to review current processes and system functionality and determine what changes can be made for process improvement. As part of this review Human Resources will also include a review of employee data, codes and definitions that are inputted into each system. A determination will be made whether or not where there would be benefit from standardization of definitions and protocols and action taken accordingly.

**Recommendation:**
**To improve analytical and management capabilities Metro should:**

1. **Determine if current functionality is available to produce agency-wide leave reports that allow comparisons between departments and other jurisdictions.**
2. **If current capability is not sufficient, Metro should put a plan in place to add capacity.**

**Response:** This will be added to the current project plan for reviewing system functionality as noted above. The data collected for this audit will serve as a useful baseline in determining appropriate information to collect moving forward. If the current systems do not have that functionality we will develop a proposal to increase our tracking capabilities.

**Recommendation:**
**To improve leave management, Metro should:**

1. **Assess underlying causes for differences in leave use by department and employee class.**
2. **Develop strategies to better manage leave.**
3. **Develop processes to identify and address leave abuse.**
4. **Collaborate with local jurisdictions to benchmark leave measures.**

**Response:**
Human Resources will further review data and variables that may be influencing leave usage differences in the various departments to determine if there are problems. Human Resources will also survey other local government agencies such as City of Portland, Multnomah County, Oregon Health Sciences University and Clackamas County to determine regional best practices for leave management. We will then work with departments and the collective bargaining units as appropriate to develop strategies for improved leave management where problems exist.

We appreciate the time you and your staff took in conducting the audit and the insight that it provides for continuing to improve efficiencies in the organization.

9/14/10

Michael Jordan — Date
Chief Operating Officer

9/14/10

Scott Robinson — Date
Deputy Chief Operating Officer

9/14/10

Teri Dresler — Date
General Manager of Visitor Venues

Mary Rowe — Date
Director of Human Resources

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