



# Secretary of State Audit Report

## Department of Administrative Services: Sick Leave Management

### Summary

#### PURPOSE

The purpose of this audit was to compare sick leave use by Oregon state employees with that of workers in other state and local governments, and identify strategies that other employers are using to reduce absenteeism.

#### RESULTS IN BRIEF

Oregon state employees use sick leave at a rate that is higher than the average of other state and local governments. For the two-year period from July 2001 through June 2003, we estimated the value of this excess sick leave was between \$14 and \$16 million.

Depending on the situation, reducing sick leave use may or may not result in immediate savings. Unused sick leave would continue to accrue and be available for use. A reduction in sick leave use, however, would reduce the amount of unproductive time for which employees are paid and further eliminate indirect costs associated with sick leave use.

Our audit identified opportunities for the state of Oregon to improve productivity and reduce sick leave use by developing effective absence control programs. Specifically, we found that the state of Oregon provides an incentive to few state employees to conserve sick leave, unlike 44 other states. Our review showed that state agencies could more effectively use work life programs that

could help reduce unscheduled absences by helping workers balance their work and family commitments. Moreover, we found that managers were frequently unaware of the rate and impact of sick leave in their agencies and most were unfamiliar with strategies available to help reduce misuse.

#### RECOMMENDATIONS

We recommend that the Department of Administrative Services take the following actions to reduce sick leave use:

- Analyze options, develop a strategy for reducing sick leave use, and seek legislative approval as needed.
- Work with agencies to promote greater awareness of the cost of excessive sick leave use.
- Publicize available work life programs, consider offering agency training on how to make the best use of these options, and encourage agencies to promote those work life programs that are consistent with their business needs.
- Encourage the uniform use of leave codes to improve comparability of data for analysis.

#### AGENCY'S RESPONSE

The Department of Administrative Services generally agrees with the recommendations. The department's complete response can be found on page five.

### Background

Oregon's legislatively adopted budget for the 2003-2005 biennium was \$37 billion, including salaries for 47,000 positions. In fiscal year 2003, state agencies in Oregon paid employees about \$1.4 billion in

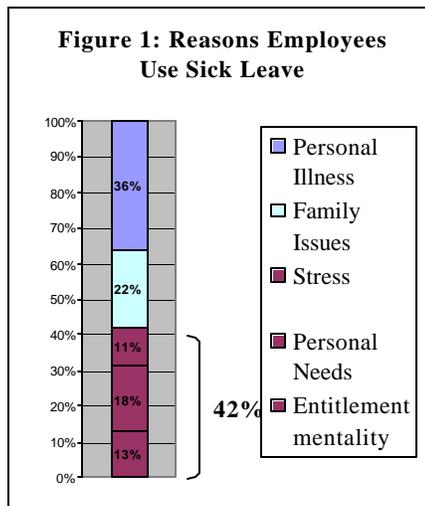
wages and leave. Of that total, \$47 million was paid in the form of sick leave.

Paid sick leave is an accrued benefit designed to provide state employees with time off from work

for personal and family illness or injury.<sup>1</sup> According to a recent national survey, an average of only 36 percent of unscheduled

<sup>1</sup> DAS HR Policy 60.000.01.

## Background (continued)



absences were attributable to personal illness. An additional 22 percent were the result of family issues that may or may not have represented an approved use of sick leave under Oregon guidelines. The remaining 42 percent of unscheduled absences comprised of stress, personal needs and entitlement mentality, identified by the survey would have fallen outside the state's guidelines for allowable sick leave use.

State managers are responsible for ensuring that government operates in the most cost-effective manner possible. Inappropriate sick leave use represents a

significant cost that can be reduced through effective absence control strategies. Effective management of sick leave requires managers to monitor both the rate and causes of sick leave use. This, in turn, can help them identify and implement strategies to control inappropriate sick leave use.

## Audit Results

### Oregon's Sick Leave Use Higher Than the National Average

We found that Oregon state employees use sick leave at a rate that is higher than the national average for state and local governments. For every 100 hours of paid time, the average state agency in Oregon pays for 2.3 hours of unproductive sick leave. This is higher than the national average of 2.0 hours.

During the two-year period from July 2001 through June 2003, the value of this excess sick leave use equaled almost \$13 million. It also resulted in an additional \$1 to \$3 million in indirect costs. The indirect costs relate to the impact unscheduled absences can have on an agency. These include additional supervisory time to cope with the absence, overtime pay for other workers, substitute pay, decreased productivity, and a decline in morale among employees who must cover for absent workers.

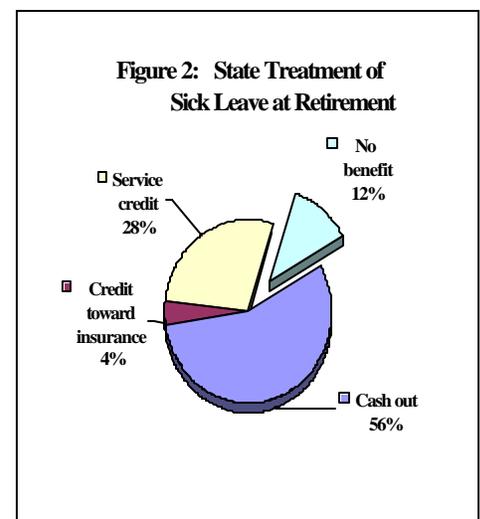
### Oregon Missing Opportunities to Reduce Sick Leave Use

We found a general lack of proactive management of sick leave use. For one, Oregon lacks an incentive for employees to reduce sick leave use. In addition, our survey showed that state agencies are not effectively using work life programs, which can help reduce absenteeism. Finally, managers at both the statewide and department levels appear to be unaware of the rate and cost of sick leave use, and strategies available to help contain it. As a result, state managers are missing opportunities to more effectively manage sick leave use.

### Oregon Provides Benefit to Few for Unused Sick Leave

An entitlement mentality is cited as one of the major reasons employees use sick leave. Employees may view sick leave as a 'use it or lose it' benefit. Providing no incentive to conserve sick leave likely contributes to this perception. According to a 2003 survey, 44 states offered some form of tangible

benefits for unused sick leave.<sup>2</sup> Oregon was listed as one of the six states that currently attach no benefit to unused sick leave. This is not completely accurate, however. Oregon state employees hired prior to January 1, 1996 are eligible to receive a benefit for unused sick leave



<sup>2</sup> State Employees Benefit Survey, Workplace Economics, 2003.

## Audit Results (continued)

upon retirement but only if their retirement is calculated using one specific option. In recent years only 5 to 10 percent of retirees have used this option. Further, the number of current employees hired prior to 1996 is decreasing. For other employees, sick leave accrues without limit until retirement or termination, when the unused balance is voided.

In most states, workers realize the benefits of unused sick leave at retirement in the form of cash payouts, service credit or credit toward health insurance. While some states give full credit for unused sick leave, most either set a limit on the benefit or convert the sick leave at rates ranging from two to 10 hours of sick leave for one benefit hour earned.

Other programs that provide an incentive to conserve sick leave include buy-back, bonus, and conversion programs.

**Buy-Back** programs reimburse employees for unused sick days at termination of employment. In the 10 states that have such programs, buy-back rates range from 10 to 50 percent of the sick leave balance.

**Bonus** programs reward employees for good attendance. For example, Broward County, Florida offers a "Bonus Day" program. Eligible employees may earn an extra day off if they use no sick time during a six-month period. In New Hampshire, state employees earn bonus leave on a sliding scale based on the sick leave hours not used during the fiscal year. Employees at FedEx can earn an extra week's salary as a reward for not using sick days. At FedEx, unscheduled medical absences have dropped by 32 percent since the program began in June 2001.

**Conversion** programs allow employees to convert unused sick leave into vacation time. For example, the state of Utah allows employees with more than 64 hours of banked sick leave to convert

additional sick leave to vacation leave. In Iowa, permanent state employees with at least 240 hours of accumulated sick leave and no sick leave usage during the previous month may convert sick leave to vacation at a rate of either two or three hours of sick leave for one hour of vacation, depending on the union affiliation.

### **Paid Leave Banks Effective in Reducing Unscheduled Absences**

Paid leave bank programs, also known as paid time off (PTO) programs, provide employees with one bank of leave hours instead of separate vacation, personal, and sick leave. The combined hours may be less than the total of the previously offered leave types. As such, these programs are designed to reduce costs and minimize lost productivity that result from misused sick leave. Employees can better accommodate their personal needs because they have more flexibility in how they use their time off. The programs also eliminate the need to pretend to be sick in order to take time off.

PTO programs have been consistently recognized as the most effective absence control program available. For example, Rockford Memorial Hospital in Illinois implemented a PTO policy in 1993. As a result, Rockford realized \$2.7 million in reduced sick leave costs and a 36 percent decrease in unscheduled absences over three years. PTO programs are also popular with employees. Between 1997 and 2001, the number of firms reported to be offering PTOs doubled to about 60 percent according to two national surveys.<sup>4</sup> Two states currently offer PTO programs. California has offered a PTO option since 1993, and Alaska instituted a PTO program in 2000.

**We recommend** that the Department of Administrative Services analyze these options, develop a strategy for reducing sick leave costs, and seek legislative approval as needed.

### **Work Life Programs Could be More Effectively Used**

Family issues, personal needs and stress are the other common reasons cited for sick leave use. Work-life programs are designed to assist employees in balancing their family and personal needs with their professional lives. According to human resource literature, proper implementation and utilization of work-life programs can reduce absenteeism and improve employee retention.

Flexible schedules, the Employee Assistance Program, and telecommuting are work-life programs currently available to Oregon state agencies. We found that state agencies could more effectively use these programs to reduce sick leave use.

### **Flexible Scheduling**

Flexible scheduling has been cited as effective in reducing excess sick leave use. There are several variations of flexible scheduling, including the following:

- Allowing employees to choose their own arrival and departure times within limits set by management.
- Compressing the standard work week into fewer than five days.
- Offering job sharing or part-time schedules.

Flexible scheduling has many benefits, including a decrease in absenteeism. Moreover, workers want flexible schedules, which appears to encourage employee retention. A 1999 survey reported that 87 percent of workers want flexible scheduling in order to address family needs.<sup>4</sup> And a 1998 study found

<sup>4</sup> [www.bsr.org/CSRResource/IssueBriefDetail.cfm?DpdocumentID=537](http://www.bsr.org/CSRResource/IssueBriefDetail.cfm?DpdocumentID=537)

## Audit Results (continued)

---

that 78 percent of fulltime professionals and 98 percent of part-time professionals felt that offering flexible scheduling encouraged employee retention. Flexible scheduling can also reduce the need for commuting or allow employees to travel during off peak hours.

A case study of a large petroleum products company provides further support for flexible schedules. At this company, flexible schedules were directly associated with improved employee morale, increased productivity, and decreased absenteeism.

Analysis of fiscal year 2003 data provided by the Department of Administrative Services (department) showed that 28 percent of state employees worked a schedule other than five eight hour days, Monday through Friday. While flexible schedules were available in seven of the eight agencies we surveyed, our analysis of department data showed that non-traditional schedules were apparently not used or offered in one large agency. In several others, less than 10 percent of the staff worked non-traditional schedules.

Job sharing and part-time work also have been reported as effective programs for reducing absenteeism. Not only do these arrangements demonstrate an employer's willingness to help workers meet non-work needs, but they can result in other benefits. For example, the *Atlanta Business Chronicle* stated that job sharing could increase profits. The *Chronicle* also noted that companies could keep highly skilled workers on a part-time basis by using job share arrangements. In addition, job sharing may offer the benefits of providing greater coverage and getting two talents for the price of one. Despite these benefits, it appeared that job sharing was being offered by only one of the agencies we surveyed.

Part-time employment offers additional opportunities to balance family

and work life. Both parents of young children and older workers value part-time employment, as they may want to work fewer hours per week. Human resource literature offers many examples of companies benefiting by hiring well-qualified candidates for part-time work. According to the department, only about 12 percent of state employees work part-time.

### Employee Assistance Programs

An Employee Assistance Program (EAP) is an employer-sponsored program designed to help workers identify and resolve personal concerns or other issues that may affect job performance. Such programs have the potential to increase employee morale and decrease stress. The programs have been documented to be one of the most useful and cost-effective techniques for reducing excess sick leave use. Most state agencies in Oregon have access to an EAP. Our survey of state agencies showed that the EAP utilization rates have decreased over the last three years.

Oregon's EAP not only provides confidential counseling to employees and their families, but it offers training for state managers and supervisors. Training is available as part of ongoing supervisory training or may be developed in response to specific issues. Topics offered include increasing morale, dealing with conflicts, building appropriate accountability, and solving problems.

Only two of the eight agencies we surveyed have offered EAP supervisory training over the past three fiscal years, and only one offered such training in the past fiscal year.

### Telecommuting

Telecommuting is another work-life program that is effective in reducing absenteeism. According to one study, telecommuting improved employee morale and retention, and reduced overhead ex-

penses. Further, 100 percent of supervisors reported improved or sustained productivity, and 96.7 percent reported an improvement in overall performance compared to the prior year.<sup>5</sup> Only two of the eight agencies we surveyed reported offering telecommuting to their employees.

### Management Awareness and Analysis Needed

Effective management of excessive sick leave use begins with recognition that a problem exists. Yet, we found that the department was not aware of Oregon's rate of sick leave use in comparison to the published national governmental rate. Through our survey, we also found that department and other agency managers were not aware of the rate of absenteeism in their own organizations.

Oregon has a uniform payroll accounting system that could provide the foundation for collecting detailed data on sick leave use. We found, however, that not all departments have been using specific pay codes to differentiate sick leave from other types of leave such as Family Medical Leave. By maintaining complete and accurate leave data, both the department and individual agencies can identify potential problems through analysis. For example, analysis could identify specific employee demographics that appear to be more prone to sick leave use. Managers could then gain an understanding of the needs of these groups and make better use of available programs to reduce their unscheduled sick leave use.

**We recommend** that the department work with agencies to promote greater awareness of the cost of excessive sick leave use. The department should also publicize the available work life pro-

---

<sup>5</sup> [www.state.ma.us/doer/programs/trans/telecomm.htm](http://www.state.ma.us/doer/programs/trans/telecomm.htm).

## Audit Results (continued)

---

grams and consider offering training to agencies on how to make the best use of these options. The department should encourage agencies to analyze their own operations to identify the causes of excessive sick leave use and promote the use of work life programs that are consistent with their business needs. Finally, the department should encourage the uniform use of leave codes to improve comparability of data for analysis.

### **Agency's Response:**

*In general, the Department of Administrative Services (DAS) agrees with the recommendations made in the audit report. In particular, we agree that managers need a better understanding of sick leave use and the statewide programs and policies that provide tools for managing sick leave. DAS also agrees that more uniform use of paid leave codes would improve the comparability of our data. Your audit report serves as a reminder that we can improve our communications with state agencies and employees on this subject.*

*In addition, we reviewed your audit results and wish to clarify a few issues that were raised. Provisions for using sick leave to cover time away from the workplace vary slightly between the various employee groups. Paid sick leave is a part of the overall compensation package and is a benefit subject to mandatory negotiation under the Public Employees Collective Bargaining Act (CR5 243.650 section 7(a)).*

*We want to emphasize that there is no monetary value affixed to this benefit in state agency budgets. Most full-time state employees receive eight hours of paid leave each month that can be used as an accrued benefit to provide time off from work for personal or family illness or injury. For the majority of our state employees, whether on the job, or off work due to a personal or family illness or injury, the direct cost to the State remains the same. The exception would be some of our twenty-four hour, seven-day-a-week institutions and facilities. Staffing requirements could result in costs associ-*

*ated with hiring temporary employees or paying overtime.*

*It is also important to note that the rate Oregon state employees use sick leave is only about 0.3% above the national average for state and local governments.*

*In response to your audit, DAS will analyze data on employees' use of sick leave during fiscal year 2004. This analysis will begin in November 2004. Using these data, the department will identify those state agencies where use is above the national average for state and local governments. We will focus our initial effort on working with agencies to determine the factors behind their higher sick leave rate. DAS will also take a closer look at some of those state agencies with sick leave rates below the national average to identify best management practices.*

---

## Objectives, Scope and Methodology

---

The purpose of this audit was to determine whether state agencies in Oregon could reduce payroll costs by more effectively managing sick leave.

We analyzed data from the Oregon State Payroll Application for fiscal years 2000 through 2003. Using a United States Department of Labor formula, we calculated Oregon's sick leave rate in order to compare it to the national average for government entities.

We gained an understanding of both the direct and indirect cost of sick leave

and calculated the potential savings had Oregon's sick leave rate been held to the national average over the last four years.

We reviewed Oregon statutes and rules governing allowable use and possible benefits of sick leave. In order to identify best practices, we reviewed national surveys and human resource literature. To gain an understanding of Oregon's use of identified best practices, we conducted a survey of eight of the largest state agencies, representing 45 percent of state payroll.

Further, we obtained usage data for the last three years from Oregon's Employee Assistance Program. We analyzed this data to identify any trends in use.

We conducted our fieldwork during the period December 2003 through April 2004. We conducted our work according to generally accepted government auditing standards.



Secretary of State  
Audits Division

BILL BRADBURY, SECRETARY OF STATE  
CATHY POLLINO, STATE AUDITOR, AUDITS DIVISION

255 Capitol St. NE Suite 500  
Salem, OR 97310

*Auditing to Protect the  
Public Interest and Improve  
Oregon Government.*

AUDIT MANAGER: *David Dean*

AUDIT STAFF: *Darcy A. Johnson, CPA  
Robert Martinez, CGAP  
Duston Sackett  
Tony Koehn  
Will Garber*

DEPUTY STATE AUDITOR: *Charles A. Hibner, CPA*

*The courtesies and cooperation extended by the officials and staff of the Department of  
Administrative Services were commendable and much appreciated.*

*This report, which is a public record, is intended to promote the best possible  
management of public resources. Copies may be obtained by mail at:*

*Oregon Audits Division  
255 Capitol Street NE, Suite 500  
Salem, OR 97310*

*by phone at 503-986-2255 and 800-336-8218 (hotline), or  
internet at Audits.Hotline@state.or.us and  
<http://www.sos.state.or.us/audits/audithp.htm>*