



AUDITOR GENERAL'S REPORT ACTION REQUIRED

Opportunities to Enhance Employee Absenteeism Performance Measures and Reporting of Results

Date:	April 11, 2014
To:	Audit Committee
From:	Auditor General
Wards:	All
Reference Number:	

SUMMARY

The Auditor General's 2013 Audit Work Plan included a review of employees' absenteeism due to illness or personal injury. Absenteeism has a direct impact on productivity that often results in additional costs to the city from employment of replacement staff and overtime. In 2013, the estimated direct cost of salaries paid to absent employees amounted to \$71.7 million (\$89.2 million when ill dependent time is included). The objective for this audit was to determine if there are opportunities to enhance the tracking and reporting of absenteeism performance measures by Human Resources for all City employees.

This report contains three recommendations along with a management response to each of the recommendations.

RECOMMENDATIONS

The Auditor General recommends that:

1. City Council request the Executive Director, Human Resources Division to report annually to the Employee and Labour Relations Committee on employee absenteeism including statistics, performance measures and trend analyses.
2. City Council request the Executive Director, Human Resources Division to look for opportunities to benchmark the City's employee absenteeism results with other municipalities or organizations.

3. City Council request the Executive Director, Human Resources Division in consultation with the Director, Pension, Payroll and Employee Benefits to consider enhancing the employee absenteeism performance measures currently in place.

Financial Impact

The recommendations in this report have no financial impact.

COMMENTS

Employee absenteeism rates decreased in 2013 when compared to the previous three years. The recent decrease in absenteeism rates is encouraging however, there are opportunities to enhance performance measures and the reporting out of results. Implementing the recommendations in this report will enhance monitoring of employee absenteeism.

The Auditor General's report entitled "Opportunities to Improve Employee Absenteeism Performance Measures and Reporting of Results" is attached as Appendix 1. Management's response to each of the recommendations contained in the report is attached as Appendix 2.

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ATTACHMENTS

- Appendix 1: Opportunities to Improve Employee Absenteeism Performance Measures and Reporting of Results
- Appendix 2: Management's Response to the Auditor General's Review of Employee Absenteeism Performance Measures and Reporting of Results

AUDITOR GENERAL'S REPORT

Opportunities to Enhance Employee Absenteeism Performance Measures and Reporting of Results

April 11, 2014

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Auditor General



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EXECUTIVE SUMMARY

2013 estimated direct cost of absenteeism \$71.7 million

Employee absences due to short term disability are disruptive to the organization and contribute to a significant amount of lost productivity. The estimated direct cost of absenteeism to the City was \$71.7 million in 2013, (\$89.2 million when ill dependent time is included). The Auditor General's 2013 Audit Work Plan included a review of employee absenteeism due to illness or personal injury.

Audit Objective

The objective of this audit was to determine if there are opportunities to enhance the tracking and reporting of absenteeism performance measures by the Human Resources Division for all City employees.

Information on employee short term absences not reported to Council

Although the Human Resources Division reviews an annual report on employee short term absences with senior management, this information is not regularly reported to any Council Committee or to City Council. Reporting to the Employee and Labour Relations Committee will provide members with information on absenteeism trends in the City.

Absenteeism performance measures are not benchmarked

Human Resources Division belongs to the Human Resources Benchmarking Network comprised mostly of human resources departments in the municipal government and health care sectors. Each year, members participate in a comprehensive survey on human resource indicators. While the City participates in the Annual Benchmarking Survey, staff do not use the final survey results as a comparator for the City's experience with absenteeism. Comparing results will assist management in evaluating the effectiveness of current policies.

Inclusion of additional performance measures would benefit divisions

The Human Resources Division provides senior management with an annual report on absenteeism that includes data specific to the Attendance Management Program. Employee absenteeism statistics are summarized at the division and employee group level, (approximately 8.9 days/shifts per year per employee in 2013). While the report does include comparative information for the previous year, it does not include any other trend analysis or benchmarking with other comparable organizations. The inclusion of additional relevant information in this report would assist divisions in assessing absenteeism rates over time and as compared to comparable organizations.

Conclusion

Employee absenteeism rates decreased in 2013 when compared to the previous three years. Although this is encouraging there are opportunities to enhance performance measures and the reporting out of results. The implementation of the three recommendations in this report represent opportunities to further monitor employee absenteeism.

BACKGROUND

Absenteeism impacts on productivity

Absenteeism has a direct impact on productivity that often results in additional costs to the city from employment of replacement staff and overtime. In 2013, the estimated direct cost of salaries paid to absent employees amounted to \$71.7 million (\$89.2 million when ill dependent time is included).

Income protection for eligible employees

The City's income protection plans provide eligible employees with income when absent from work due to illness or personal injury. There are separate plans for union and non-union employee groups. Coverage is up to 26 weeks to a maximum of 130 days each calendar year at a level of 100 per cent or 75 per cent of regular salary based on completed years of service.

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

***Auditor
General's 2013
Work Plan***

The Auditor General's 2013 Audit Work Plan included a review of non-union employee absenteeism due to illness or personal injury. A new short term disability plan was implemented in 2008 to provide these employees with adequate protection from loss of income while lowering the City's liability that was growing. Under the previous plan, sick days could be banked and paid out under certain circumstances. A separate Illness or Injury Plan was introduced for the bargaining units (Locals 416 and 79) in 2010.

***Non-union
employees'
historical data
not available***

The intent of the original work plan was to analyze absenteeism trends for the non-union employee group. However, the Human Resources Division (HR) only started tracking absenteeism data by employee group from 2010 onwards. The lack of such data prior to 2010 made it impossible to perform the analysis we had originally intended.

Audit Objective

The revised objective for this audit was to determine if there are opportunities to enhance the tracking and reporting of absenteeism performance measures by HR for all City employees. This audit covered employee absenteeism from calendar years 2010 to 2013. The scope of the audit did not include a review of the Attendance Management Program.

***Audit
Methodology***

Our audit methodology included the following:

- Review of relevant committee and council reports
- Review of policies
- Analysis of corporate absenteeism data provided by HR and Pension, Payroll and Employee Benefits (PPEB) divisions. The data was not independently verified by our office since historical detailed information was unavailable.
- Interviews with staff
- Review of reports on work place absenteeism issued by other municipalities and government organizations

Compliance with generally accepted government auditing standards

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.

AUDIT RESULTS

A. Short Term Disability Performance Measures

A.1. Information on Employee Absenteeism is Not Regularly Reported to Council

The Pension, Payroll and Employee Benefits Division prepares an annual report on employee absenteeism that is reviewed by HR and shared with senior management. The report summarizes average number of absences due to illness by days/shifts at the corporate and divisional level. The report is based on all paid and unpaid absences due to illness or personal injury. As well, since 2010 the report breaks down the absences by employee group, union and non-union for each of the two previous years.

Absenteeism report contains limited information

The absenteeism report was created for the purpose of the City's Attendance Management Program. The program's objective is to manage employee sick absences in a fair and consistent manner. Source data for the report is provided by the Pension, Payroll and Employee Benefits Division. Apart from the aggregate statistics provided at the corporate and divisional level in the HR report, and some specific analysis performed during bargaining unit negotiations, there is no further analysis of absenteeism trends or patterns.

Employee absenteeism rates decreased 13 per cent in 2013

Employee absenteeism rates were static from 2010 to 2012 and decreased by approximately 13 per cent in 2013. While there were reductions in absenteeism for all employee groups, the largest improvement was with Local 79 employees. Although we cannot specifically identify the factors resulting in the improvement, a sick occurrence provision was implemented in 2013 which likely contributed to the decrease in absenteeism.

Table 1 summarizes the average number of employee absence occasions at the City from 2010 to 2013.

Table 1: 2010-2013 Average Number of Absence Occasions

Year	2010	2011	2012	2013
City Average (days or shifts)	10.4	10.4	10.2	8.9

Source: Human Resources Division, City of Toronto

Employee absenteeism information not reported to Council

Currently, HR does not regularly provide information on absenteeism to any Council Committee or to City Council outside of data related to collective bargaining proposals. HR's last report to the committee in August 2010 was for the implementation of the Illness or Injury Plan for unionized employees.

Labour Relations Committee can benefit from availability of information

Reporting absenteeism trends and analysis to the Employee and Labour Relations Committee would provide committee members with valuable information related to the City's actual experiences with absenteeism. This will assist them in monitoring trends and impacts and make informed decisions on strategic direction. Reporting this information can also provide an indication of the effectiveness of existing policies and programs.

Opportunities to strengthen governance and accountability

Reporting to Committee on employee absenteeism performance measures is an opportunity to strengthen governance and accountability.

Recommendation:

- 1. City Council request the Executive Director, Human Resources Division to report annually to the Employee and Labour Relations Committee on employee absenteeism including statistics, performance measures and trend analyses.**

A.2. Benchmarking of Absenteeism Performance Measures

HR does not compare City statistics with other municipalities

HR belongs to the Human Resources Benchmarking Network comprised mostly of human resources departments in the municipal government and health care sectors. Each year, members participate in a comprehensive survey on human resource performance indicators. The Network publishes an Annual Benchmarking Survey report which facilitates comparison of human resources information among its members. Although HR participates in the survey, the results are not used as comparators in evaluating the City's absenteeism.

Benchmarking establishes a baseline

The City's absenteeism results over time should be compared against other municipalities and government resources such as Statistics Canada. This will assist management in evaluating the effectiveness of current policies and identify areas for improvement. Such information may be useful for setting corporate strategic targets.

Recommendation:

- 2. City Council request the Executive Director, Human Resources Division to look for opportunities to benchmark the City's employee absenteeism results with other municipalities or organizations.**

A.3. Enhancement of Absenteeism Performance Measures

HR reporting on absenteeism rates since 2001

HR has reported internally on average employee absenteeism rates at the corporate and division level since 2001. Enhancements were made to the reporting process in 2010 that included a breakdown of absences by employee group at each division and monitoring of the total number of sick absence days taken by employees each week.

Information on paid sick expenses are not tracked

The Human Resources Benchmarking Network’s annual survey contains two measures related to absenteeism. These are “Paid Sick Hours Per Eligible Employee” and “Sick Pay Expense Indicator”. The City has provided information related to the first indicator since 2012 but has not provided information for the second indicator. This is an important indicator since it illustrates the financial impact of paid sick absences including the magnitude as a percentage of total payroll expense. Currently, the Division does not track this amount. Most municipalities that participated in the survey reported on both sick pay indicators.

Although the Division has some absenteeism performance indicators in place, consideration should be given to including additional performance indicators. This will provide further insight as to the drivers of employee absenteeism.

Additional performance indicators should be considered

The City would benefit from reporting out on additional indicators related to absenteeism. We understand that there may be some limitations to doing this effectively and efficiently. However, appropriate consideration should be given to expanding the indicators used keeping in mind any additional costs to do so. HR should consult with Pension, Payroll and Employee Benefits Division to determine which indicators are meaningful including, for example:

- Number of sick absence occasions and duration
- Average number of sick absence occasions by division, and average sick cost per employee
- Correlating employee demographics with sick absences
- Sick absence patterns

Recommendation:

- 3. City Council request the Executive Director, Human Resources Division in consultation with the Director, Pension, Payroll and Employee Benefits to consider enhancing the employee absenteeism performance measures currently in place.**

CONCLUSION

Employee absenteeism rates decreased in 2013 when compared to the previous three years. There are opportunities to enhance performance measures and the reporting out of results. Enhancing performance measures and reporting annually to Employee and Labour Relations Committee would bring additional focus to the level of absenteeism at the City and present opportunities to further improve employee attendance.

**Management's Response to the Auditor General's Review of the
Opportunities to Enhance Employee Absenteeism Performance Measures and Reporting of Results**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u> <i>(Comments are required only for recommendations where there is disagreement.)</i>	<u>Action Plan/ Time Frame</u>
1.	City Council request the Executive Director, Human Resources Division to report annually to the Employee and Labour Relations Committee on employee absenteeism including statistics, performance measures and trend analyses.	X			Annual report once year end data verified.
2.	City Council request the Executive Director, Human Resources Division to look for opportunities to benchmark the City's employee absenteeism results with other municipalities or organizations.	X		Human Resources currently reviews Statistics Canada's Work Absence report, the HR Annual Benchmarking Survey as well as comparator information among other municipalities through the Regional and Single Tier HR group.	Annual review.
3.	City Council request the Executive Director, Human Resources Division in consultation with the Director, Pension, Payroll and Employee Benefits to consider enhancing the employee absenteeism performance measures currently in place.	X			Review to occur prior to first report to Employee and Labour Relations Committee as well as to support benchmarking participation.