Issue Brief

Latest Front in the Battle against Wasteful Spending

New research uncovers costly gaps in the legacy systems that agencies use to track and manage absenteeism.

In early 2012, the *Atlanta-Journal Constitution* detailed the results of an audit that found the state of Georgia had paid $43 million in unused vacation time to employees who retired, quit, transferred or were laid off. The audit further found that the state was obligated to pay hundreds of millions more to current employees in the next few years as state employees had banked more than $550 million worth of unused time off as of the end of 2010. It was a price tag that seemed particularly abhorrent as the state grappled with tight budgets and proposed cuts to programs.[1]

But Georgia is not alone. Outdated approaches to absence management mean that states and agencies across the country often have little to no visibility into how leave is tracked and accrued — and must make huge payments unexpectedly as employees leave. Additionally, state and local governments have the potential of making erroneous payments totaling millions of dollars each year to employees because time and attendance systems are outdated, unreliable and decentralized.

A comprehensive new research study by Governing Research looks at managing absenteeism in state and local governments and the procedures and policies that are in place to track time off and determine proper payouts for everything from overtime pay to pension benefits.

STATE AND LOCAL GOVERNMENT EMPLOYEE OVERPAYMENTS IN THE U.S. PER YEAR

$229 MILLION + **$613** MILLION

5.3 Million State Employees

14.2 Million Local Employees

= **$842 MILLION**
IN POSSIBLE OVERPAYMENTS PER YEAR

According to a recent survey, 12 percent of employees overstate time worked by two hours monthly.

How this adds up:
5.3 million state employees @ $15/hr = $229 million in overpayments
14.2 million local employees @ $15/hr = $613 million in overpayments

Total = **$842 million in overpayments** possible per year

= 1 MILLION EMPLOYEES

SOURCE: FORRESTER RESEARCH

This issue brief will investigate this research and highlight the ways in which modern automated tracking systems can capture and deliver more accurate information about planned and unplanned absences. Better data means that state and local governments can have increased visibility into human capital management — which translates to major cost savings, optimized and productive operations, and peace of mind when it comes to regulatory compliance.

The average manager in the Governing Research survey reports spending 1.6 hours per week managing absenteeism. If the average manager makes $20/hr, the yearly cost of managing absences amounts to $881 million nationally, or about $17.6 million per state.

Pinpointing the Problems

Successful absence management requires tools and processes to oversee and administer employees who are away from their jobs for any reason, including vacation leave, illness, and short-term disabilities or extended family and medical leave. Agency managers grapple with two core problems as they track these absences:

Problem #1: Errors result when absence management systems rely on manual, outdated and decentralized processes. Manual processes require managers or self-reporting employees to record information about absences, which can lead to input errors and risks that paper documents become lost or misfiled.

The study by Governing Research shows how prevalent legacy systems are in state and local governments. Fifty-three percent of respondents say their organizations still rely on a manual time and attendance system. In addition, 63 percent of the executives say they do not use an automated request and approval system to manage employee requests for time off. These findings help explain why 45 percent of agency executives consider their time and attendance systems to be outdated.

Highly decentralized, stove-piped systems add to these woes. When processes are decentralized rather than managed as a central system, absence information does not automatically flow to all relevant business systems. Decentralization makes it difficult for senior managers to see a holistic view of each employee's full attendance record and raises questions as to who ultimately bears responsibility for absenteeism policies and enforcement efforts.

Governing Research found that approximately 40 percent of respondents use a decentralized mechanism to track their time and leave. Assuming that each employee that utilizes a decentralized system understates his or her actual leave by only 8 hours per year (about .3 percent of the total hours worked), this adds up to $254 million in additional leave liability nationally, or an average of just over $5 million in overstated leave liability per state.

Problem #2: Time-tracking responsibility often lies with the employee to report manually. Inaccuracies associated with outdated systems are exacerbated, either accidentally or not, when employees are tasked with documenting their own attendance records. Nevertheless, 38 percent of the state and local executives in the survey say employee self-reporting is the norm in their agencies. Making matters worse, this sometimes unreliable information becomes the basis for a host of downstream compensation and benefits calculations.

According to a recent Forrester Research survey, 12 percent of employees overstate their time worked by two hours monthly.[2] Looking at the pool of 5.3 million state employees at an average wage of $15/hr, this amounts to approximately $229 million per year in overpayments to employees, or an average of $4.5 million in overpayments per state. When factoring in local employees, the cost increases dramatically. With 14.2 million local employees at an average wage of $15/hr, this amounts to approximately $613 million per year in overpayments to employees nationally, or an average of $12.2 million in overpayments per state. The city and county of Denver, with nearly 13,000 employees at 51 agencies, grappled

IN THE HEADLINES

Since December 2011, multiple headlines have highlighted the negative consequences of poor absence management, including:

- "State overpaid employees by more than $2 million," by *Hawaii News Now*
- The *Charleston Daily Mail*'s "Unused sick days aiding W.Va. retiree premiums"
- "CPS brass cracking down on big payouts for sick days," by the *Chicago Sun-Times*

with problems like these before it replaced its legacy manual payroll system. Employees filled out paper timesheets and three-part leave slips that often took weeks to reach the agency's timekeeper, who then had to manually enter the data into an enterprise resource planning (ERP) program. Without timely workforce information, employees and their supervisors could not access accurate leave balances, making it difficult for supervisors to know if an employee had available time off.

According to Governing Research, 76 percent of respondents say some carry-over hours never expire. These accrued leave balances follow the employee through retirement and become factors in pension calculations and retirement eligibility.

Negative Consequences

Unfortunately, as the steady stream of press coverage shows, absence management errors are not trivial problems. They have significant negative impact on state and local governments, especially at a time when budgets are tight and scrutiny is high.

Large, Sometimes Erroneous Employee Payouts

Reporting problems for leave or excessive overtime and sick hours can saddle government organizations with unnecessary costs. Sick time often never expires and vacation time can be rolled over to sick time. According to Governing Research, 76 percent of respondents say some carry-over hours never expire. These accrued leave balances follow the employee through retirement and become factors in pension calculations and retirement eligibility.

Lost Efficiency and Revenue Opportunities

Error-prone absence-reporting systems can set off other costly ripple effects throughout agencies. When employees receive time off, replacement workers can be a drain on productivity and lead to service disruptions. Sixty percent of the respondents consider fill-in talent less productive than permanent employees. Absenteeism is made worse when antiquated reporting tools fail to help department managers spot potential abuse of paid-leave policies or adequately plan for peak demand periods.

Based on Governing Research, 11 percent of state and local employees say their employer typically hires a replacement worker when an employee is out of the office for an extended absence. Although the financial cost of that replacement worker is reported to be on par with the usual wage, the operational efficiency loss (lower productivity) of that worker is reported to be 61 percent less efficient. If this happens just one day per year among those employees, the cost would be $43 million nationally or about $850,000 per state.

Higher Risks for Regulatory Non-Compliance

State and local officials face many new and complex regulations, and Governing Research identified absence management problems in this area. Ten percent of the decision-makers surveyed say they are not confident that their systems comply with Family and Medical Leave Act (FMLA) requirements, while another 6 percent do not know enough about their systems' FMLA capabilities to voice an opinion. In addition, 54 percent of survey respondents say they do not use an automated system pre-configured with federal and collective bargaining labor laws.

When agencies rely on manual workforce management tools in today's highly regulated environment, department heads struggle to enforce policies for FMLA, the Fair Labor Standards Act, collective bargaining agreements and rules for military leave. This puts them in danger of violations that can lead to fines and lawsuits.

A Modern Alternative

Automated workforce management systems provide an alternative to manual absence management systems, creating a single automated system for tracking and controlling employee time and attendance, absence management, payroll, scheduling, labor analytics and other workforce activities.

Agencies accurately pay employees for the actual hours they worked, reliably track exception pay and properly decrement sick time and paid-leave benefits. In addition, the automated systems eliminate employee self-reporting of overtime hours. The increased accuracy and visibility also helps employees quickly determine available vacation and leave benefits. And because agency managers can configure all internal and regulatory policies within the automated system, employees do not have to report shift or equipment differentials manually on paper timesheets, which takes the guesswork out of how to interpret complex pay policies.

A Clear Return on Investment

State and local agencies across the country are reporting clear returns on their investments in automated workforce management systems. The city and county of Denver's workforce management system brought new efficiencies to payroll processing, which allowed Denver to reduce annual labor costs by $1.5 million. Overall, the city and county of Denver expects to see a $5.2 million return on investment (ROI) over five years.

The city of El Paso, Texas, is experiencing similar benefits. A few years ago it struggled to manage FMLA leave because its legacy timekeeping systems could not automatically monitor employee use and compliance activities. These shortcomings enabled some employees to take undue advantage of FMLA policies with excessive long-term absenteeism, which resulted in increased payroll costs and understaffing problems for the city.

El Paso addressed these challenges with a workforce management system, which gives city clerks up-to-date information to quickly spot FMLA excesses and significantly reduce its monthly payroll obligations. The city also more clearly analyzes its staffing needs to keep overtime and temporary staffing expenses under control. The bottom line: El Paso achieved a 463 percent ROI after using the automated system for about three months.

As these examples show, closer monitoring of absenteeism with a modern, integrated workforce management system gives state and local governments the visibility and control they need to reduce labor costs and avoid becoming the subject of the next sensational headline.

Further Reading

Workforce Performance Revisited: Making the Most of your Time, Talents and Team
http://www.govtech.com/library/papers/Workforce-Performance-Revisited.html

The Total Economic Impact of Kronos Workforce Central Suite
http://www.kronos.com/showAbstract.aspx?id=16010&rr=1&sp=n&LangType=1033&ecid=ABEA-56V1K5

Endnotes

1. "State pays a bundle in unused leave," *Atlanta Journal-Constitution*, Jan. 1, 2012, http://www.ajc.com/news/state-pays-a-bundle-1284579.html
2. "The Total Economic Impact of Kronos Workforce Central Suite," Forrester Research, September 2011