



## Internal Audit

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### Management of Sick Benefits Audit

**Operating Unit:** Niagara Region

**Date of Audit:** September – December 2019

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**Date Issued:** January 10, 2020

## **EXECUTIVE SUMMARY**

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### **BACKGROUND**

In accordance with the 2019 Audit Plan, Internal Audit performed a comprehensive review of the Management of Sick Absences as well as the role of the Employee Health Services team in Human Resources, in monitoring and case managing employee sick absences. The audit was conducted within professional standards published by the Institute of Internal Auditors.

The purpose of the audit was to provide assurance to Management and Niagara Region's Audit Committee on the effectiveness of the management control framework respecting management of sick absences and employee sick absence policies. The audit tested whether the management of sick absences are processed in a manner that is compliant with the current case management practices and related sick leave policies. Finally, the audit provided an evaluation of the current technology used (specifically Kronos and Parklane) and business processes to determine their effectiveness in supporting the management of sick leave absences.

The methodology used by Internal Audit included a review of relevant documentation, analysis of sick occurrence data, interviews with key individuals involved in the processes and re-performance of certain procedures. The period covered by the audit was from January 1, 2017 to December 31, 2019.

### **SCOPE**

A risk based auditing approach was used to determine the scope of the audit. The timing and analysis of the Audit was combined with the Employee Extended Benefits Audit as both programs share common objectives and goals – to support health and wellness of employees in the workplace. The following processes, procedures and items were considered in scope for the audit:

- Risk identification and assessment of the management of sick leave use , including operational and oversight practices;
- Interviews and process walkthrough with key staff in Employee Health Services, to determine their roles, responsibilities, and oversight methodology;
- Analytical review of metrics used to monitor sick leave use, benefits and report on operational performance and;
- Detailed testing of a sample of sick day occurrences to assess accuracy of encoding and monitoring by all staff involved in accordance with the provisions laid out in sick leave management policies and practices.

The following was considered out of scope:

- Work related injuries and absenteeism approved under WSIB;
- Long Term Disability claims that are managed through SunLife as an independent insurance policy; and,
- Attendance management within Niagara Regional Housing and Niagara Regional Police Service.

In 2018 Internal Audit completed two audits on Payroll processes – Phase 1 Timekeeping and Phase 2 Timely and Accuracy of Payroll Remittance. While this audit did not duplicate testing conducted previously, some of the findings may overlap. In addition, several of the requirements within the Attendance Support Program were not tested as a revised policy has recently been approved by CLT and will be implemented by mid-2020. It is strongly suggested that Internal Audit consider auditing the efficacy of the revised policy and management/staff requirements within it by end 2022.

### INTERNAL AUDIT FINDINGS

The report is broken into the following sections:

- Data Management – this section analyzes the encoding, receiving, monitoring and management of data/documentation related to the management of sick absences.
- Performance Management – analysis of the current reporting, goals, strategies and performance measures related to the operationalization of sick absence practices and policies.

In 2019, Niagara Region employed approximately 3,582 employees with an annual compensation of \$205,587,243. Not all employees are eligible for sick leave benefits, such as some casual, part time and student. For 2019, Niagara had approximately 2,588 eligible full-time employees use 207,182 sick day hours at a cost of \$6,586,905. Sick time accounts for just over 3.2% of total salary compensation. Table 1 below shows a three year breakdown of the number of eligible full time employees, sick occurrences and total cost of sick time. It should be noted that this does not include employees on Long Term Disability. An occurrence is defined as an incident of absence which can range from less than one day/shift up to when a person returns to work or is placed on long term disability. For testing purposes, the audit did not focus on eligible part time employees as that cohort represents less than 1% of total sick time hours and less than 1% of costs.

<b>Attendance Support Eligibility and Cost</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Eligible Employees	2452	2,468	2,588
Number of Occurrences	9,925	10,133	11,307
Total Sick Hours	207,246	203,660	207,182
Total Cost	\$6,296,897	\$6,218,201	\$6,586,905

Human Resources Benchmarking Canada (HRBN) 2018 data shows that Niagara’s sick time accounted for 3.6% of total salary compensation. Based on all participating municipalities Niagara’s is within the top 25<sup>th</sup> percentile. Salary dedicated to sick time compensation in Niagara is below most of the comparators that participate in HRBN surveying.

<b>Human Resources Benchmarking Network - 2018</b>	<b>Sick Pay Expense as a Percentage of Eligible Salary Expense</b>
Weighted Average	3.71%
HRBN 10 <sup>th</sup> Percentile	3.00%
HRBN 25 <sup>th</sup> Percentile	3.59%
HRBN 50 <sup>th</sup> Percentile	4.04%
HRBN 75 <sup>th</sup> Percentile	4.47%
Niagara Region	3.60%

The medical case management of sick absences is managed through the Employee Health Services team in Human Resources. Employee sick absences, as well as other attendance records, are encoded by local office administrators (encoders) into the Kronos system. Kronos is the Region’s main system for recording employee time and attendance, and supports the payroll process at Niagara Region. For employee absences beyond 3-5 days (depending upon the employee group), staff are required to submit suitable medical documentation, most notably a Treatment Memorandum or doctor’s note (suitable medical certificate) to verify that the sick absence was justified and non-culpable. Sick absence documentation is uploaded into the Parklane system and monitored regularly by EHS staff to proactively support employees to return to work or to verify that employees are continuing to participate in treatment if they remain out of the workplace on sick leave.

## OBSERVATIONS AND RECOMMENDATIONS

The following are all the observations from the audit along with recommendations and Management's Action Plans to address these issues. See Appendix I for the risk ranking justification.

**Observation #1 – Data management processes seem to be managed effectively although they are highly manual and lack integration with other related systems.**

**Risk Ranking**

**LOW**

### **A. DATA ENCODING**

The ongoing responsibility for monitoring and encoding attendance resides with local management and administrators (encoders) including reporting of employee absences for various reasons such as sick days. Responsibility is also delegated to local staff to update Kronos regarding an employee's continued absence, potential pay rate adjustments and return from an extended absence while collecting the necessary documentation.

The majority of training for encoders can be considered hands-on with the support of other encoders. Human Resources may provide training to encoders and managers upon request. In the event of encoder absences, operating areas are required to arrange for appropriate backup to ensure timely completion of payroll processes.

The amount of hours for employee sick banks (and other employee time allotments, such as vacation, lieu, etc.) is set annually by Human Resources including the system rules around pay decreases for longer term absences. In other words, a person's pay progressively decreases the more time they take off for absences related to illnesses based on employee group, years of seniority and employment status such as full time vs part time. By incorporating these rules into the system it decreases the discretion and judgement required of encoders. Most of the in-year updates to staff sick day banks are manually inputted by HR staff.

Internal Audit testing revealed a few minor errors in the accuracy of sick day resets and updates. Specifically, it was noted that employees were granted additional time off beyond their seniority levels which may impact compensation rates depending on the amount of sick time taken during the course of a year. Through our sample testing we found no errors that can be directly attributed to encoders, while there were some errors related to sick bank resets and employee allocations these are not directly attributed to encoders. The monetary impact of these errors can be considered negligible.

### **B. DATA REPORTING**

While all sick day occurrences are initially encoded into Kronos, EHS staff manually generate a report following each pay period, entitled UMUL, to review employee sick absences for the past pay period and determine if any employees have been non-complaint with medical

certificate reporting requirements. A CA15 Parklane report is also generated weekly by EHS staff to support local management by developing a monitoring plan, identifying any outstanding issues and when appropriate facilitate a return to work plan for the employee.

It is within Parklane that all required documentation such as medical notes is stored and a monitoring/reporting plan is developed to proactively support management until an employee returns to full and regular duty or is approved for LTD benefits. In other words, EHS staff determine the review and reporting dates and these are inputted into a CA15 Parklane report that is used by EHS as a prompt of when to interact with management and an employee on short term disability.

While the majority of the processes described above are manual and labour intensive, the audit found very few issues with the overall management and documentation. Following five consecutive days off on sick absence, (three consecutive shifts for paramedics) staff are required to submit medical documentation to verify the legitimacy of the absence. Employees are required to submit the documentation within ten days of the last shift worked. There were some cases where documents, mostly medical notes, were submitted beyond the required stipulated timeframe of ten consecutive days but all required updates were eventually made.

Parklane being a standalone system has no integration with Kronos however files and information from PeopleSoft are uploaded to Parklane on a regular basis so that Parklane records remain current. This results in staff manually generating and reviewing reports, delays in determining and updating employee statuses and inputting necessary documentation.

**Implication**

Lack of formalized training and monitoring by Human Resources could result in inconsistent interpretation and application of encoding absentee rules and inputting requirements.

Poor integration of Parklane with other systems, mostly Kronos, increases the effort of EHS staff to create reports and monitor employee absentee occurrences and rates. This has an impact on the requirements for timeliness and accuracy for submitting documentation.

**Recommendation**

1. EHS should investigate other computer systems that allows for better integration with Kronos to support and improve business processes to:
  - a. Capitalize and improve on better and more timely monitoring of employee sick absences;
  - b. Ensure all necessary medical documentation is inputted in a timely manner to accurately verify the absence the within Kronos and validate the nature of an employee absence, i.e. culpable vs non-culpable;

- c. Create and analyze more elaborate corporate absentee trends to develop effective and strategic programs to support employees and reduce absentee rates and costs; and,
- d. Reduce the number of errors related to absentee encoding and resetting of employee sick banks.

**Management Action Plan**

<b>Person(s) Responsible</b>	Linda Gigliotti, Associate Director Employee Services Dan Miron, Manager Health/Safety/Wellness	<b>Completion Date</b>	<b>Q4 2020</b>
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1. While the audit does confirm the current technology and business processes are essentially effective, Management supports the continual need to fully leverage existing technologies, and to periodically review and explore the market for improved efficiencies and gains with new available technology. The current application used by the Employee Health Services team, Parklane, in addition to absence tracking allows for the necessary medical charting used by the Occupational Health Nurses and Employee Health Services team to facilitate absence tracking and also for development of Return to Work opportunities and plans. Although WSIB is out of scope of this audit, Parklane does provide efficiencies with automated filing and reporting to the Board which covers a large volume of incidents in a timely manner to maintain compliance. Similar applications and tools in the market that deliver all of these specific functions appear to be limited, however Management continues to review the market for new software applications that meet the robust need and allow for more integration. **Management is including this consideration as part of a broader HRIS review occurring in 2020, and will report back any new developments in this regard specific to the sick benefits audit.**
  
2. Management supports the need for improved reporting, and has been working closely with the Information Technology team to support the introduction of new Business Intelligence (BI) reporting tools. During the pilot, the use of the BI reporting tools allowed for quicker, easier, more robust reporting with the ability to present large data points in an audience friendly manner. **It is HR's intention to continue to work closely with IT in the coming months and leverage the opportunities that the new BI will bring with reporting, and will report back progress this year on trending and forecasting opportunities with the introduction and use of BI reporting.**

**Observation #2 – While the attendance management and sick day results are within a reasonable range, there is a lack of performance measures and reports to support continuous improvement.**

**Risk Ranking**

**LOW**

Compensation related to sick days for 2019 was \$6,586,905, up from the 2018 total of \$6,218,201. In total, that equated to 207,182 hours of direct paid sick day costs in 2019 or approximately 80 hours per eligible full-time employee, as shown in Table 3 below. (Auditors utilized an hourly basis instead of days as the length of shifts varies based on position with the Region). When compared to other jurisdictions through the HR Business Network (HRBN) database, Niagara’s costs over a five year period from 2014 to 2018 approximate the average of the 11 municipal comparators. HRBN provides summarized costing and operation data from several Ontario municipalities related to HR administration and program areas to support comparative analysis.

<b>Sick Day Cost and Hours Breakdown</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
# of Eligible Employees*	2452	2,468	2,588
Number of Paid Sick Hours	207,246	203,660	207,182
Average Sick Hours per Eligible Employee*	85	83	80
Total Sick Leave Cost	\$6,296,897	\$6,218,201	\$6,586,905

\*Full time employees only

Table 4 below shows a comparative breakdown of Niagara against other local regional municipalities. While 2019 data is not available the table demonstrates that for 2018, as mentioned earlier, Niagara approximates the average of the comparison group. The difference between the two numbers is represented by the addition of part time staff which reduces the total from 83 hours per employee to 81.14 hours per employee,

<b>Regional Municipalities</b>	<b>2018</b>
Halton	68.78
Waterloo	78.14
York	79.85
Niagara	81.14
Hamilton	90.29
Durham	95.70

\*Includes ALL staff, excluding Police Services

For the three year period studied the number of sick day occurrences has increased from 9,925 in 2017 to 10,133 in 2018 and finally 11,307 in 2019. The total number of sick hours though in that period has actually decreased from 207,246 in 2017 to 207,182 in 2019 meaning the average duration that employees are off work is decreasing from 93.3 hours in



2017 to 89.9 hours in 2019. This average is based on employees that have at least 1 sick day occurrence. In general, this signifies that staff are returning to work quicker reducing sick day and other administrative costs such as backfilling staff, when required. The illness related statistics are detailed in Table 3 below. (As shown in Table 5, annually the number of people who do not take a sick day/hour is increasing annually).

<b>Sick Day Occurrences and Hours</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
# of Paid Occurrences	9,925	10,133	11,307
Average Hours per Occurrence	21	20	18
Average Hours per Employee* (at least 1 occurrence)	93.3	91.5	89.9
Avg. Cost per Occurrence	\$634	\$614	\$583
# of Staff with NO Occurrence	267	288	323

\*Full time employees only

As the total and average sick day hours decreases it should be noted that other administrative costs decrease as well. While this audit did not study the cost of lost productivity and backfilling staff for certain positions (even for short term absences) one can conclude that additional administrative costs related to backfilling fluctuates proportionately with the number of sick days.

The audit analyzed sick day statistics at the bargaining group level to determine anomalies or issues. Table 6 breaks down the sick day statistics for 2018 and 2019 to determine any changes at the per employee level. It should also be noted that when breaking down data at the employee group level a couple of longer term illnesses may skew the results for the entire group. This type of analysis is necessary to support profession specific strategic plans to address potential systemic attendance management issues.

<b>Annual Sick Day Changes by Employee Group</b>	<b>Number of Employees</b>		<b>Total Paid Sick Hours</b>		<b>Average Per Employee</b>		<b>% Change</b>
	<b>2018</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>	
CUPE 911	219	237	26,886	35,010	123	148	+20%
CUPE 1757	113	128	8,369	7,687	74	60	-19%
CUPE 1263	553	581	56,698	55,306	103	95	-7%
CUPE 1287	823	837	75,095	68,886	91	82	-10%
Non Union	618	655	25,474	27,263	41	42	+1%
ONA 9 Homes	35	36	3,778	4,102	108	114	+6%
ONA 9 Public Health	107	114	7,367	8,934	69	78	+14%
Grand Total	2468	2588	203,660	207,182	83	80	-3%

The audit tested for frequency and timing of sick days over the course of the last three years. The audit looked at 25 employees with the highest frequency of sick day occurrences to determine if there was a correlation between the length/timing of their sick day occurrence with certain sick absence milestone requirements. The 25 staff selected for our sample represent 369 separate sick day occurrences. With regard to milestones, the audit looked at whether staff returned to work immediately prior to any of the following milestones:

- A medical note being required,
- Reduction in pay due to length of occurrence (i.e. 100% to 75% to 60%) and
- Prior to transition to Long Term Disability.

Testing also looked at whether those same staff had another occurrence immediately after their sick day bank was reset back at 100%. The audit determined that there was no direct correlation between sick day occurrence timing and/or compensation milestones. This issue was prevalent in other municipalities as noted in internal audits. “Gaming the system” is not occurring in Niagara as was discovered in other internal audits from comparable jurisdictions.

The audit tested if there was a higher occurrence (paid and unpaid) of sick days either prior to or immediately following statutory holidays and weekends. As shows in Table 7, employee groups were grouped together based on similarity of statutory holiday compensation clauses within their plans. The 4431 total occurrences noted in column 3 below are ‘NEW’, meaning the absence started on either a Friday or Monday or just prior to or after a statutory holiday. Also, the occurrences are for short term absences that do not require medical notes.

<b>Employee Group</b>	<b>Number of Occurrences</b>	<b>Prior to or After Holiday or Weekend</b>	<b>Percent</b>
CUPE 911	1252	401	32%
CUPE 1263 and ONA 9 H	3623	1295	36%
Non-Union, CUPE 1287, CUPE 1757, ONA 9 PH	6432	2735	43%
<b>Total</b>	<b>11307</b>	<b>4431</b>	<b>39%</b>

Overall, Niagara is below the levels reported in other audit reports from comparable jurisdictions. While this statistic is not part of HRBN data, it was studied in a few other audit reports. Compared to other jurisdictions, Niagara’s data is considerably lower yet should be continuously analyzed to ensure the terminology in employment contracts is sufficient to reduce or eliminate culpable absences in and around weekends and statutory holidays.

Finally, as part of our audit, regular reports or summaries were reviewed that may be shared with Senior Management to identify potential trends, either corporately or within specific

business areas, areas of concerns and strategies to address those concerns. While we noted earlier that the current sick day compensation and per employee number of sick days approximates the average of the 11 jurisdictions that provided data through the HR Business Network database, Niagara does not have a formal long term strategy to reduce the sick day totals and related costs. In addition, the attendance support program does not have detailed performance measures or reports to support ongoing monitoring and continuous improvement.

It should be noted that the CLT recently approved a revised Attendance Support Program policy that will be implemented in Q2 2020. This revised policy improves and clarifies the role of management and employees, including the importance of timely attendance support meetings to develop proactive solutions to attendance issues. This was the first update to the Attendance Support Program since 2012.

Internal Audit recently engaged the services of MNP Consulting to support a related audit focusing on employee benefit claims. As part of their engagement, MNP consulted with an industry expert from Jackson and Associates (J&A). While their recommendations are detailed in the Benefits Audit, some apply to this review as well. As part of their overall recommendations J&A states that, “The most effective approach to a desired result is by changing the focus of the benefit plans and getting in front of a claim through promoting a healthy lifestyle [that] would address physical, mental and financial health.”

Also J&A recommends that, “Creating a Wellness vision/mission statement is a strategic exercise that needs to be collaborative.” Focusing upon employee wellness as an overall strategy of which attendance management and benefit programs are subcomponents can have an impact on program costs, design and operations.

### **Implication**

Without detailed performance measures and agreed upon targets the Region may not be able to address potential absentee issues succinctly and reduce or better manage is absentee rates while proactively addressing the needs of employees

Without an overall vision, mission statement, and attendance support objectives as part of the enhanced benefits program, the organization may be limited in its efficiency and effectiveness.

### **Recommendation**

1. Human Resources needs to develop an overall vision and mission for the various corporate benefits programs that includes the prevention and management of sick absences to ensure employee’s long term needs are satisfied in a cost effective and efficient manner.

- Human Resources should identify and implement Niagara based attendance management performance measures and targets to monitor ongoing attendance-related trends and develop programs to manage potential issues.

**Management Action Plan**

<b>Person(s) Responsible</b>	Linda Gigliotti, Associate Director Employee Services Dan Miron, Manager Health/Safety/Wellness	<b>Completion Date</b>	<b>Q4 2020</b>
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- As demonstrated by the results of this audit, Human Resources (HR) has been diligently working on sick time/absence management practices over the past several years, effective safe and early return to work strategies, and continually monitoring results against internal and external benchmarks. In addition, HR has proactively partnered with higher risk employee groups, such as Emergency Services, to develop, implement and monitor a Psychological Wellness and PTSD Prevention Plan. Management has also placed a significant focus on improved Return to Work strategies to reduce absence durations, and to achieve the reported results introduced a new EFAP provider in 2017 and introduced a fitness facility available to all staff (expanded in 2019). HR has partnered with health care benefit providers (Green Shield Canada, Morneau Shepell) for employee health care fairs, training (ie. Mental Health Leadership certification) and programs (smoking cessation). Additionally, Management is already committed to a Total Rewards and Employee Labour Strategy this year which will include a specific vision statement and will align with the current direction taken by Human Resources. This strategy will assist with setting future direction for benefit plan and design.  
**Management will report back to Audit Committee on the Total Rewards and Employee Labour Strategy to be developed. This will align with Management's response to the Human Resources Employee Extended Health Benefit Claims Audit.**
- As stated, Management is supportive of monitoring, identifying trends, and also to using data to inform enhancements to benefit plan design, Attendance Support Program, etc. Management will continue to monitor and measure against internal and external benchmark indicators.

## APPENDIX I - RATING SCALE

Rating	Definition
<b>CRITICAL</b>	Requires immediate action by Senior Management to avert a severe/disastrous risk event in the near-term. Internal controls are deemed to be ineffective, absent or poorly designed. Management Actions Plans (MAP's) are to be implemented immediately to mitigate risk of substantial financial losses, business interruption, loss of reputation and/or environmental, public health & safety risk.
<b>HIGH</b>	Requires prompt action by Management to avert, reduce or transfer a major risk event. Internal controls are deemed to be ineffective, absent or poorly designed. MAP's should be implemented to mitigate the risk of financial losses, loss of reputation, address fraud issues or legal/regulatory non-compliance.
<b>MEDIUM</b>	Requires timely actions by Management to reduce risks to a low level. Internal controls are deemed to be ineffective or poorly designed. Management action is required, but is not immediate. Moderate financial losses, temporary/minor reputational impairment, lesser potential for fraud or regulatory non-compliance may occur without timely MAP's.
<b>LOW</b>	Management actions are recommended to address the weaknesses identified. Internal controls are operating effectively or partially address the control objective; however they may be poorly designed and/or operational inefficiencies exist which may result in an opportunity for improvement. Low risk events may cause operational inconvenience or minor financial losses.