



Deschutes County,  
Oregon

Recommendations

10

# Vacation and Sick Leave

The Office of County Internal Audit

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**HIGHLIGHTS****Why this audit was performed:**

A review of employee vacation and sick leave time to inform County policy.

**What was recommended:**

Recommendations include:

- configuring the system to not allow for negative balance adjustments;
- exploring the cost-benefit of additional reporting services;
- establishing secondary review processes for balance limit calculations and adjustments;
- revising County policies and CBA contract language to align with practice; and
- adjusting the cash out policies to address constructive receipt.

**Vacation and Sick Leave**

The focus of the review was on analysis of vacation and sick leave information contained within the NOVAtime (timesheet) and Munis (accounting/ human resources) systems. Computerized procedures can be used to extract employee timesheet information and relevant employee data from County systems. This allows the linkage of leave information and employee information, such as identifying employee leave balances with length of County service. Limitations within NOVAtime system reporting prevented analysis of data prior to Fiscal Year 2021-2022.

**What was found**

Overall, the County's internal and management controls over the employee leave operation are effective and working as intended.

The audit identified the following areas for further improvement, including

- The NOVAtime system allows for leave adjustments to create negative balances.
- Data could be used more effectively for decision-making.
- Differences exist between NOVAtime and Munis database information.
- Vacation and sick leave balances for separated employees are a potential risk.
- Vacation and sick leave maximum balances are inconsistently enforced.
- Employees are not using sufficient vacation leave as directed by policy.
- County policy for leave accrual timing not in conformance with Oregon law.
- County policy and CBAs need to be updated to match current practice for maximum vacation and sick leave timing.
- Cash out election provisions of time management leave may accelerate employee taxable income.

A number of other analyses were performed but did not yield any recommendations.

## 1. Introduction

### 1.1 BACKGROUND ON THE AUDIT

#### Audit Authority:

The Deschutes County Audit Committee authorized the review of vacation and sick leave (computerized procedures) in the Internal Audit Program Work Plan for 2022-2023. Computerized procedures can be utilized to extract relevant data from County systems. Audit objectives, scope, and methodology can be found in **Appendix A**.

This Vacation and Sick Leave report assesses the portion of leave provided to employees as a benefit of employment. Through discussion with management, these types of leave have received no formal review and could benefit from an assessment. In the context of employee leave, the analysis of vacation and sick leave sets the stage for additional work in assessing leave provided in lieu of overtime wages (compensatory time).

### 1.2 BACKGROUND ON VACATION AND SICK LEAVE

The County's workforce is the human capital of the organization and its key resource in pursuing and achieving its goal of enhancing the lives of citizens by delivering quality services in a cost-effective manner. Managing staff availability and absences through designated processes and technological resources is essential in ensuring organizational goals are continually met. The County uses NOVAtime Time Management Online (NOVAtime) for its employee timekeeping and time management system. It is the responsibility of all employees to record accurately time and attendance. Department heads and supervisors are responsible for ensuring all time is reported accurately by employees in NOVAtime.

Due to the complexity of employee leaves, the County has individually categorized within NOVAtime all leave of absence types to correctly track and account for these benefits of employment.

**Table I**

Categories of leave provided to employees as a benefit. Highlighted categories were included in the audit.

	Time Management Leave		Sick Leave		Vacation Leave
	Military Leave		Parental Leave		Union Activities Leave
<b>FMLA</b>	Family and Medical Leave Act	<b>OFLA</b>	Oregon Family Leave Act		Bereavement Leave
	Victims of Domestic Violence Leave		Holiday Leave		Salary Continuation
	Criminal Proceedings Leave		Jury Pay		Education Leave
	Leave without Pay		Witness Duty		Special Leave (Board Decree)

Under County policy and collective bargaining agreements (CBA), employees are eligible for various paid leaves of absence depending on factors, such as job classification, legal requirements, and union representation. The County has contracts with:

- American Federation of State, County, and Municipal Employees (AFSCME);
- 9-1-1 Employees Association;
- Deschutes County Sheriff Employees Association (DCSEA);
- International Union of Operating Engineers (IUOE);
- Federation of Oregon Parole and Probation Officers (FOPPO); and
- Deschutes County District Attorneys' Association (DCDAA).

Vacation and sick leave rules vary between CBAs and County policy for non-represented employees. The focus of the audit was on the Time Management Leave Program (TML), which incorporates both vacation and sick leave for most County employees, as well as traditional vacation and sick leave offered under some CBAs. DCSEA represented employees' traditional vacation and sick leave includes additional time in lieu of holidays, which is applied at a monthly rate of 8.66 hours. 9-1-1 and some AFSCME represented employees also have leave time in lieu of holidays, however the hours were not included in this audit as they are accounted for outside of vacation and sick leave.

**Table II**

Categorization of leave types based on CBA or County policy; number of employees within each group on June 30, 2022.

TML program (total number of employees in each group)	Traditional vacation and sick leave program
AFSCME (509)	DCSEA (175)
Non-Represented (258)	IUOE employees opting to not participate in TML <sup>1</sup> (5)
IUOE employees opting in to TML or hired after July 1, 2016 (60)	
9-1-1 Employees Assoc. (34)	
FOPPO (23)	
DCDAA (19)	

For the purposes of this report, the Time Management Leave Program, traditional vacation, and sick leave will be referred to as vacation and sick leave collectively. Employees accrue vacation and sick leave hours at the beginning of the month and hours are available for use within the month. Any unused hours carry over to the next month building a vacation and sick leave balance. Employees are encouraged to maintain a reasonable leave balance in the event of an illness.

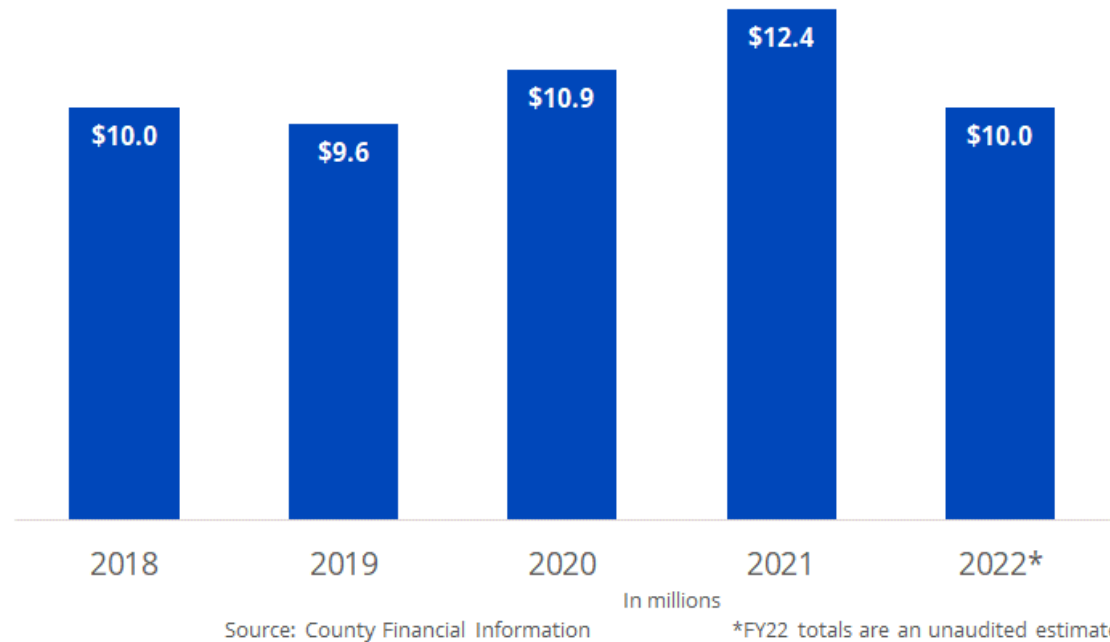
<sup>1</sup> The TML program was optional for all IUOE represented employees hired prior to July 1, 2006.

### **County Financial Information**

Employees can accumulate earned but unused vacation and sick leave, as well as compensatory time within County policy. Accumulated unused leave represents a financial liability for the County. The liability is actualized either through usage, an annual cash out option, pre-retirement cash out option, or payout upon separation. Sick leave is not paid upon separation except as applicable, based on CBA guidelines. Accumulated leave is converted from accrued hours to a monetary equivalent as part of each fiscal year closing procedures and reported for financial statement purposes as a compensated leave liability.

#### ***Graph I***

Trend of  
Compensated  
Leave Liability  
Balances FY18-  
FY22.



Compensated leave liabilities have remained relatively steady, averaging \$10.3 million dollars over the last five years.

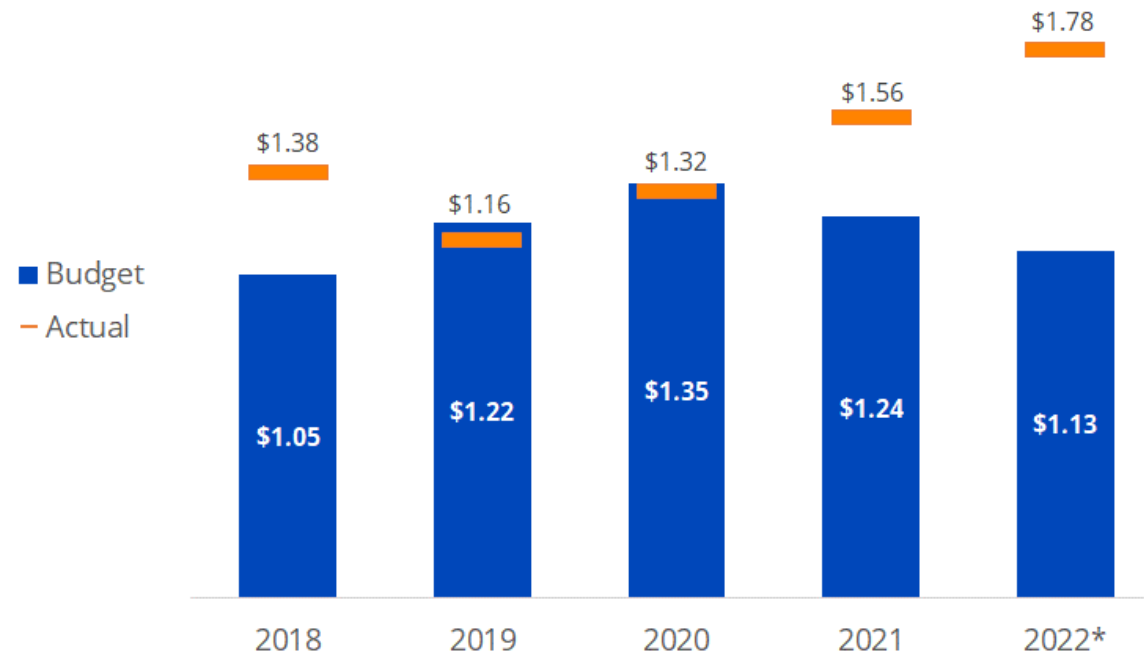
### **Department/Office Financial Information**

The County budgets and incurs costs for normal employee vacation and sick leave usage within its regular employee labor expense. Departments/offices budget for payouts upon separation and

**Graph II**

Trend of payouts and cash outs of vacation and sick leave in millions with Budget to Actual FY18-FY22

employee cash out options as an additional expense within their overall personnel costs. Based on preliminary financial figures, the County as a whole under budgeted these events by 63% in Fiscal Year 2022 (\$1.13 million budgeted to \$1.78 million actual). However, these deficits can be offset through salary and vacancy savings.



Source: County Financial Information

\*FY22 totals are an unaudited estimate

Vacation and sick leave payouts/ cash outs accounted for only 1.3% of the approximately \$141 million in the County's overall personnel costs in Fiscal Year 2022.

## 2. Findings and Observations

The audit included limited procedures to understand the systems of internal control around vacation and sick Leave. No significant deficiencies were found in this audit. A significant deficiency is defined as an internal control deficiency that could adversely affect the entity's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The findings noted were primarily compliance and efficiency matters. Audit findings result from incidents of non-compliance with stated procedures and/or departures from prudent operation. The findings are, by nature, subjective. The audit disclosed certain policies,



procedures and practices which could be improved. The audit was neither designed nor intended to be a detailed study of every relevant system, procedure, or transaction. Accordingly, the opportunities for improvement presented in the report may not be all-inclusive of areas where improvement may be needed and does not replace efforts needed to design an effective system of internal control.

Management has responsibility for the system of internal controls, including monitoring internal controls on an ongoing basis to ensure any weaknesses or non-compliance are promptly identified and corrected. Internal controls provide reasonable but not absolute assurance that an organization's goals and objectives will be achieved.

Overall, the County's internal and management controls over the employee leave processes are effective and working as intended. The following observations are noted to help further improve and inform the policies, procedures, and controls put into place.

## **2.1 NOVATIME SYSTEM**

### **The NOVAtime system creates a situation where some employees are advanced leave they do not have.**

Employees who have exhausted their vacation and sick leave and enter a leave without pay status accrue leave on a prorated basis. The NOVAtime system automatically applies a full monthly accrual on the first of each month to these employees. The full monthly accrual is then paid to the employee during timesheet preparation. The employee on leave without pay should not receive their full accrual, so an adjustment is required. The adjustment reverses the full accrual and applies any prorated hours after the pay period has ended but cannot address the hours paid from the leave

**Table III**

Example of system operation relating to leave without pay employees.

balance. This situation originating from NOVAtime creates a negative leave balance.

Simplified example			
LEAVE WITHOUT PAY EMPLOYEE	Month 1	Month 2	Month 3
Beginning Bank	0	-14	-14
NOVAtime applies 14-hour monthly accrual on the 1 <sup>st</sup>	+14	+14	+14
Leave paid - Hours taken by the system	-14	0	0
Adjustment for leave without pay (-14 hours reversed)	-14	-14	-14
<b>Totals</b>	<b>-14</b>	<b>-14</b>	<b>-14*</b>
*Note - Leave without pay employee "owes" hours upon returning to work			

Negative balances in a payroll system could represent an overpayment or usage of hours in excess of accrual. The County leave policies do not allow for usage after leave hours are exhausted.

107 employees were subject to negative leave balances in Fiscal Year 2022, totaling over 2,500 negative leave hours. Leave hours paid to the employees after the system applies the monthly accrual are an unearned benefit. Adjustments after leave has been paid to the employees creates an undue hardship for those who are on leave without pay for consecutive months, i.e., maternity leave. The employee returning from leave without pay faces a deficit in leave and is unable to use vacation and sick leave until a positive balance is achieved.

Additionally, this situation occurred with one separating employee and resulted in an overpayment of vacation and sick leave of more than \$1,300 gross pay. The overpayment could not be recovered.

The configuration of the NOVAtime system reflects County policy for leave accrual timing on the first of each month. Payroll staff make manual calculations and necessary adjustments in the beginning of the following month after payroll has processed. This results in paying the unearned accrued leave



The US Government Accountability Office (GAO) provides information for developing an internal control system in what is referred to as “The Green Book”.

and creates the negative leave balances. Moving these adjustments before payroll processing might help the system operate better.

***It is recommended the NOVAtime system be configured to not allow for negative balance adjustments or alternative methods should be explored.***

### **Data could be used more effectively for decision-making.**

NOVAtime data reporting of vacation and sick leave is limited due to date range constraints placed on reporting periods. Of the eight reports available through NOVAtime related to vacation and sick leave:

- Three will only provide current or prior year data.
  - Data size is so large for one report it fails to process.
  - Others took between 20-60 minutes to complete.
- Five reports are limited to one-month durations.
  - Data providing information on usage must be limited to 400 employees in each request, resulting in the need for 72 (seventy-two) individual requests to obtain one year's worth of County data.

Management reporting provides current and accurate data of progress towards organizational goals. GAO's Green Book 16.08<sup>2</sup> relating to performing monitoring activities for controls states, “Management retains responsibility for monitoring the effectiveness of internal control over the assigned processes performed by service organizations.”

Limitations on the accessibility of data hamper effective trending and analyses of data. NOVAtime does not allow for direct access to the County's data. Access to data is provided through

<sup>2</sup> GAO's Green Book – GAO-14-704G Federal Internal Control Standards Pg. 66



“Test accounts serve a very valuable function, especially as organizations prepare to move a new app or version from test to production.”<sup>3</sup>

NOVAtime system reports. NOVAtime provides additional reporting options, but the County has not explored additional services since contracted. Expanded reporting options from what is currently available would carry additional costs.

***It is recommended the County explore the cost-benefit of additional NOVAtime data reporting services.***

### **The existence of test employee accounts within the production system is not aligned with best practices.**

NOVAtime has five test employee accounts used for training employees and/or supervisors, as well as accruals testing, in the production system. The test accounts contain nearly 2,800 hours of vacation and sick leave combined.

Best practices<sup>3</sup> in the information technology field are to only allow test accounts in a separate test environment in order to protect the integrity of the production system. Production system data must be a reliable source of information.

Introduction of test employee accounts could impact the production environment. Reports generated from the production system would also include these test accounts.

NOVAtime offers no test environment and has denied County requests to provide one. The County has no option but to continue using these test accounts for the current purpose.

***It is recommended the County continue to explore solutions to transition test employee accounts outside of the production environment.***

<sup>3</sup> Cloud Security Alliance Industry Insights by Merritt Maximi “Test Accounts: Another Compliance Risk”

**Diagram 1**

Noted employee record differences between systems, including overlapping differences.

**Differences exist between NOVAtime and Munis database information.**

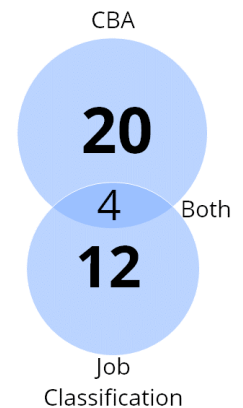
Of the 1,154 NOVAtime employee records, the system information differs from Munis employee records for the correct CBA in 20 records and job class in 12 records. Four of the identified records had both CBA and job classification differences.

GAO's Green Book 13.05<sup>4</sup> relating to information and communication defines quality information as "appropriate, current, complete, accurate, accessible, and provided on a timely basis."

Incorrect categorization of employee information that determines an employee's available leave could lead to incorrect application of accrual rates. A recently promoted County employee maintained their prior job classification rate because updates were not applied in NOVAtime.

Upon employee position changes, Human Resources notifies Payroll of the employee's updated job classification and CBA status, if applicable. There is no system in place to ensure the updates are completed and the employee information matches in both databases.

***It is recommended Payroll develop a system to ensure NOVAtime and Munis employee information are in sync and correct.***



<sup>4</sup> GAO's Green Book – GAO-14-704G Federal Internal Control Standards Pg. 60

## 2.2 POLICY COMPLIANCE

### **Vacation and sick leave balances for separated employees are a potential risk.**

186 separated employees were found having a combined vacation and sick leave balance of over 10,200 hours. All separated employees were fully paid out upon separation. In over 100 of the cases, the NOVAtime system automatically applied accruals after separation.

GAO's Green Book 10.03<sup>5</sup> provides an example of internal control activities as "management designs control activities so that all transactions are completely and accurately recorded."

In the absence of oversight, separated employee balances could be transferred without detection. Hours associated with separated employees provides opportunity for misuse/ misallocation as they do not belong to an active employee and would not be missed. Additionally, in the case a separated employee regains active status, hours may supplement new leave bank activity or be paid out a second time.

It appears prior payroll staff did not establish a practice of clearing balances from NOVAtime as employees separated from service. Most of the identified separations with large balances occurred in 2018. Additionally, the NOVAtime system is incorrectly applying monthly accrual rates on recently separated employees. The NOVAtime vendor has been notified of this issue and agrees it should not occur but has not provided any correction for this system flaw.

***It is recommended Payroll eliminate retained balances from all separated employees and continue to work with the vendor on a solution to discontinue system generated leave time for separated employees.***

<sup>5</sup> GAO's Green Book – GAO-14-704G Federal Internal Control Standards Pg. 45



Maximum limit calculations are generally calculated at twice the annual leave accumulation.

## **Vacation and sick leave maximum balances are inconsistently enforced.**

On March 31<sup>st</sup>, 2021, thirty-five employees were subject to vacation and sick leave hour adjustments for County maximum accrual limits. Hours over the maximum are moved to a sick leave bank. The following inconsistencies were identified:

- Five additional employees received no adjustment while exceeding maximum limits.
- Two employees' adjustments were miscalculated.
- Two employees received adjustments despite having enough usage to be below maximum limits.
- One employee received a positive adjustment, providing them with additional hours of leave.

Employees are restricted in the amount of earned leave they can accumulate, depending on which CBA or County policy is applicable. March 31<sup>st</sup> calculations are based on length of service and CBA/ policy rules. Transfer of hours over allowed limits to a sick leave bank occurs May 1<sup>st</sup>.

Inequitable treatment of County policy erodes a workplace culture of consistency. Employees may perceive favoritism is being shown and could affect employee morale.

Human Resources performs the calculations and notifies Payroll to make the adjustments, but calculations and adjustments receive no secondary review for accuracy.

***It is recommended Human Resources and Payroll establish secondary review processes for employee leave balance limit calculations and adjustments.***

## **Employees are not using sufficient vacation leave as directed by policy.**

Thirteen employees did not take the required amount of vacation leave within 2021, however all identified employees used some vacation leave during the year.

Regardless of applicable CBA or County policy, all employees are required to take a minimum amount of vacation leave within the calendar year. During the first five years of employment, employees are required to take 40 hours of vacation per year. Employees with more than five years of employment are required to take 80 hours of vacation leave per year.

A 2015 article<sup>6</sup> combining 20 cohort studies worldwide concluded employees who are overworked have a higher risk of stroke and coronary heart disease. Employees who fail to meet the usage requirements are ineligible for the cash out options offered by the County.

***It is recommended the County develop a process to support supervisors in monitoring employees' use of vacation leave in compliance with policy.***

### **County policy for leave accrual timing not in conformance with Oregon law.**

County policy HR-16 contains "Leave earned during the month cannot be used until the first day of the following month." This statement conflicts with the Oregon Paid Sick Time Law by limiting access to earned leave until the following month.

The Oregon Paid Sick Time Law requires all employees to have access to in-month accruals of vacation and sick leave.

An inconsistent policy statement on the availability of leave hours can cause confusion for all non-represented employees and supervisors within the County, possibly restricting allowable usage for affected employees.

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<sup>6</sup> Lancet August 20, 2015 – "Long working hours and risk of coronary heart disease and stroke: a systematic review and meta-analysis of published and unpublished data for 603,838 individuals"



Oregon legislative action resulting in the Oregon Paid Sick Time Law became effective Jan.1, 2018. County policy HR-16 was last updated July 1, 2012. Existing policies should have been updated to ensure legal requirements are met.

***It is recommended the County revise leave policy HR-16 to be in conformance with State law.***

### **County policies and CBAs need to be updated to match current practice for maximum vacation and sick leave timing.**

The March 31<sup>st</sup> deadline for vacation and sick leave maximum limits is indicated in County policy HR-16 and most CBAs. The exception is the Deschutes County Sheriff's Employees Association who uses April 1<sup>st</sup>. County practice has been to provide employees until May 1<sup>st</sup> to use accrued leave or utilize cash out options in April to remain under the maximum. This additional time is not stipulated in any CBA or policy.

Employees are restricted in the amount of earned leave they can accumulate, depending on which CBA or County policy is applicable. The cash out option available in April allows employees the opportunity to reduce accumulated leave while gaining extra income.

According to a 2020 survey by Gartner<sup>7</sup>, a research and consulting firm, employees value vacation and sick leave benefits behind only base pay as the most important. If applied as written, the County policy and CBAs would limit the options for employees to manage their leave.

The existing practice has been traced back to at least 2001, which pre-dates both the current policy and union contracts.

***It is recommended the County update policy and CBA contract language to align with practice.***

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<sup>7</sup> Gartner Insights by Mary Baker March 10,2020 - "Know Which Benefits Your Employees Care About"

## **Cash out election provisions of time management leave may accelerate employee taxable income.**

The provisions in most of the County's policies regarding elective cashing out of banked time management leave include some restrictions. These restrictions generally include:

- a) At least one year of continuous employment;
- b) Must have at minimum 12 months of earned time management leave;
- c) Must have used the requisite amount of leave for their position;
- d) An election must be received to convert part of their bank into cash.

It is not clear the current program sufficiently addresses "constructive receipt" and could result in additional taxable income to employees who are offered the option. "Constructive receipt" is a tax timing issue to indicate when employees are *constructively* paid.

The County (depending on years of services and the restrictions above) allows some portion of banked leave hours to be cashed out. Cash out hours vary by employee but are usually 40 or 80 hours. In addition, the County allows employees within close proximity of retirement to cash out 200 hours at any time.

The IRS has issued guidance regarding how employees are given cash out choices and the restrictions. The IRS has taken the position that if an employee has the option to cash out banked leave, the employee is in "constructive receipt" of the banked leave at the time that the employee could receive the cash – even if the employee doesn't cash out – and, therefore, the value of the leave should be included in the employee's taxable income. This creates a potential timing issue between when hours are taxed and when hours are used.

There are some IRS letter rulings<sup>8</sup> that give an indication of the IRS's stance on these matters and indicate some approaches where constructive receipt can be avoided. One approach was to have employees elect before the beginning of the year whether they will cash out or rollover their accruing leave at the end of the next year. The change in approach is to have an election made for future earned leave and not banked leave.

The County needs to be prepared to either manage the related tax issues (and explain them to employees) or update the plan approach to cash out that might be more acceptable to the IRS.

The effect is that all employees identified who can make a cash out election may be subject to accelerated taxable income. This, essentially, removes the control over taxability from the hands of employees. If the County fails to appropriately report this as taxable income, they may be subject to additional taxes and penalties.

***It is recommended for the County to consider adjustments to the leave cash out policies to further address constructive receipt.***

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<sup>8</sup> Letter rulings are limited opinions provided by the IRS for specific situations and these rulings should not be used or cited as precedent.

2.3 ANALYSES OF VACATION AND SICK LEAVE

A number of analyses were performed which did not yield any specific findings, but can be used to better inform County management and employees on the operation of vacation and sick leave management. Analyses included overall County information, as well as demographic information, such as employee age, length of service, gender identity, and ethnic identity.

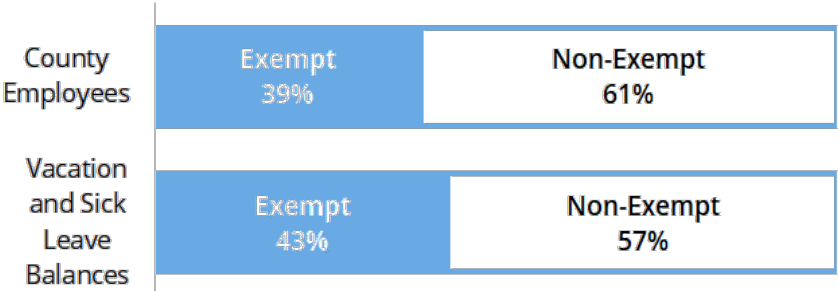
**Deschutes County Employee Information:**

Deschutes County employees' monthly leave balances for vacation and sick leave averaged 263 hours or the equivalent of 32 days based on an eight hour work day. Charts and graphics in the following analysis which refer to days of leave were calculated on an eight hour work day for consistency. Many departments, offices, and functions may work a variety of hourly schedules over eight hours.

**2.3.1 – COUNTY VACATION AND SICK LEAVE BALANCES (in total):**

**1) by Overtime Eligibility:**

County employee’s job classification determines whether the employee is eligible for overtime under applicable wage and hour laws. These determinations can be distinguished as exempt from overtime or non-exempt from overtime. This is often referred to as hourly or salaried employees, although these categorizations are not absolute.



**Chart I**  
Composition of employees by overtime eligibility; distribution of vacation and sick leave balances by overtime eligibility.

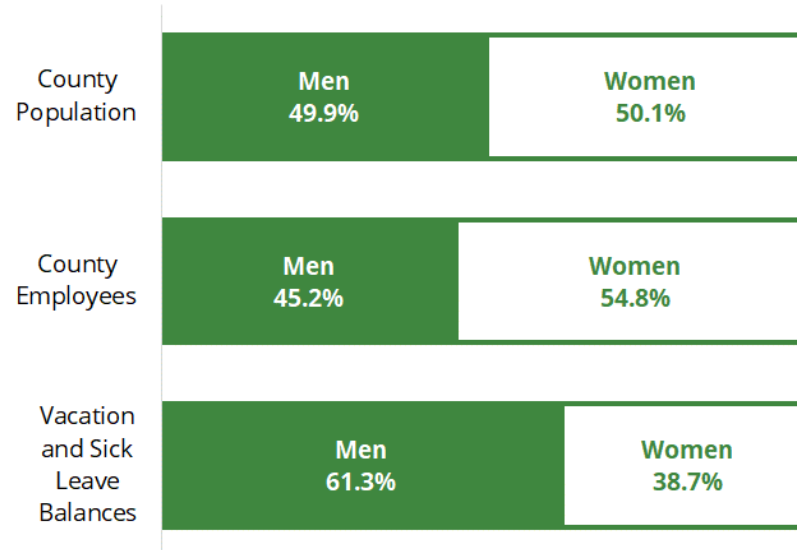
The total vacation and sick leave balances reflect the County’s distribution closely.

**Chart II**

Compositions of Deschutes County population; Deschutes County employees by gender identity; and employees total balances of vacation and sick leave by gender identity.

**2) by Gender Identity:**

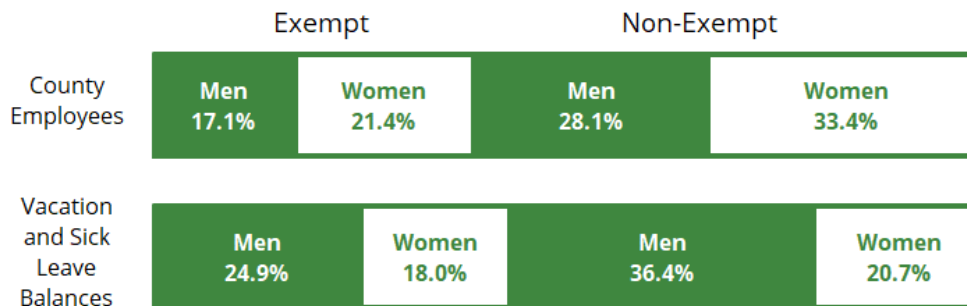
County employees who have self-identified as women account for nearly 55% of the workforce as compared with a near perfect split for the County population as a whole. Employees who self-identified as nonbinary accounted for a small percentage of County employees and were not included to maintain their anonymity.



Vacation and sick leave balance composition were not reflected in the gender identity distribution of County employees. Smaller balances were accumulated by women despite being the majority of the workforce.

**3) by Overtime Eligibility and Gender Identity****Chart III**

Composition of County employees by gender identity and overtime eligibility.



The amount of representation in each gender identity within the overtime eligibility categories is not enough of a factor to explain the large disparity in balances.

**Chart IV**

Composition of employees based on average monthly vacation and sick leave available in Fiscal Year 2022.

**Chart V**

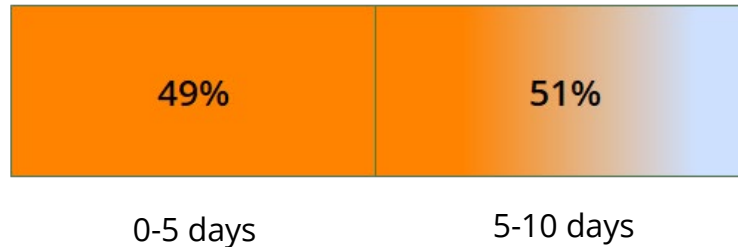
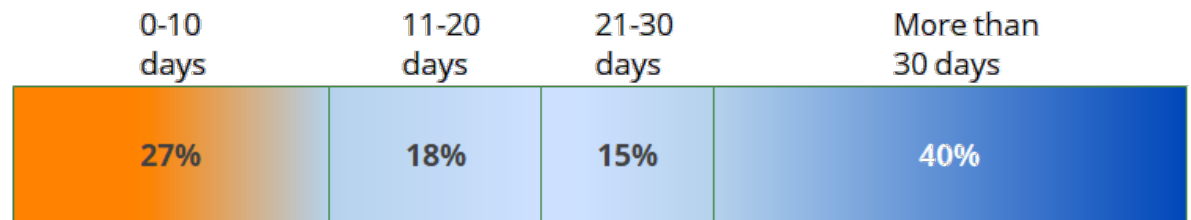
Composition of employees with less than 10 days monthly vacation and sick leave available on average in Fiscal Year 2022.

**Graph III**

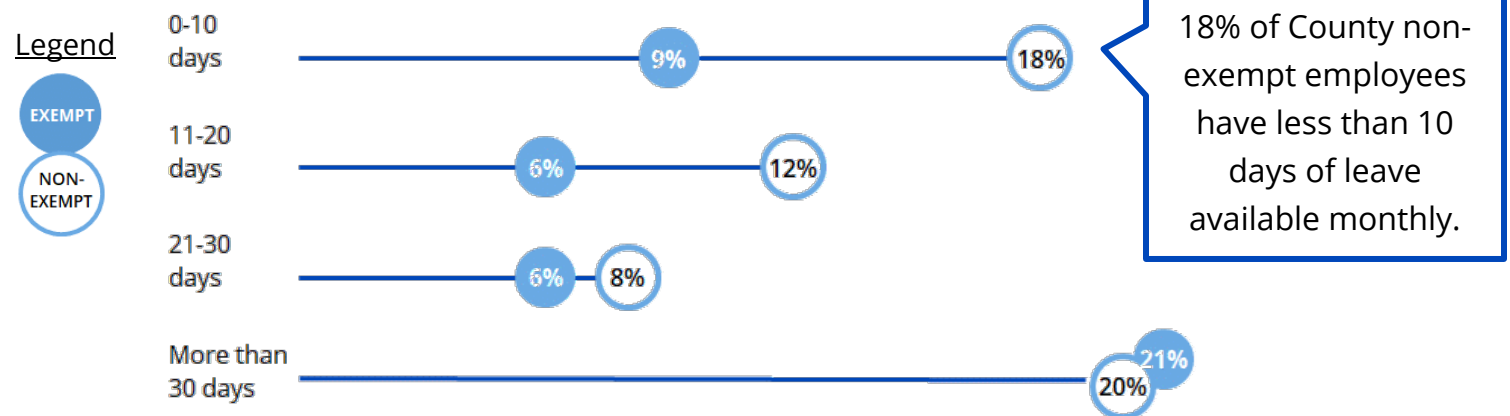
Composition of employees based on average monthly vacation and sick leave available in Fiscal Year 2022 by overtime eligibility.

**2.3.2 – COUNTY EMPLOYEE AVERAGE AVAILABLE BALANCES (in days):**

27% of County employees have less than 10 days of leave available monthly.



Closer examination of the 27% of employees with less than 10 days of leave available monthly reveals nearly half at less than 5 days of leave. These employees are at the highest risk of exhausting their leave balances and moving into a leave without pay status.

**1) by Overtime Eligibility (in percentages):**

**Graph IV**

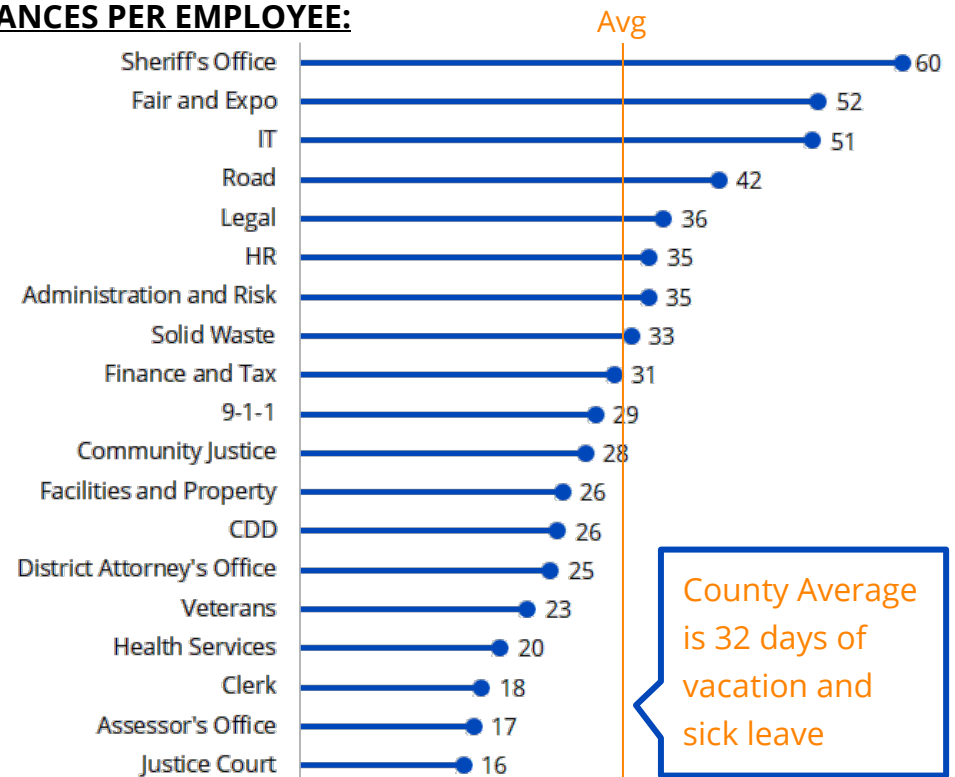
Composition of employees based on average monthly vacation and sick leave available in Fiscal Year 2022 by gender identity.

**2) by Gender Identity (in percentages):**

20% of County female employees have less than 10 days of leave available monthly.

**2.3.3 – COUNTY AVERAGE LEAVE BALANCES PER EMPLOYEE:****1) by Department/Office (in days):**

Deschutes County organizational structure has many departments, offices, and functions, making it difficult to categorize. Departments/offices with similar locations and functions were combined for simplicity.

**Graph V**

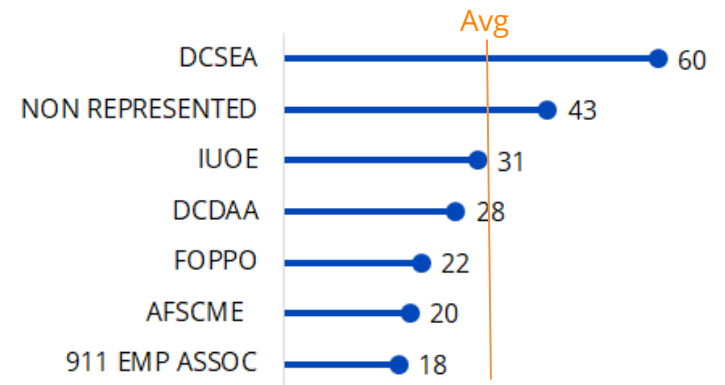
Average days of vacation and sick leave balances per employee in Fiscal Year 2022 by department/office.

**Graph VI**

Average days of vacation and sick leave balances per employee in Fiscal Year 2022 by representation.

**2) by CBA/ Non-Represented (in days):**

Vacation and sick leave rules vary between CBAs and County policy for non-represented employees leading to variety within average days of vacation and sick leave. DCSEA represented employees' vacation and sick leave includes additional time in lieu of holidays which is applied at a monthly rate of 8.66 hours.

**3) by Overtime Eligibility (in days):**

Employees who are exempt from overtime tend to carry higher balances than their non-exempt counterparts.

Legend

Average Days  
per employee

**4) by Gender Identity (in days):**

The imbalance in hours can also be observed in the average days available to each gender identity. Men have nearly twice the number of days available on average than their counterparts.

Legend

Average Days  
per employee

**Chart VI**

Average days of vacation and sick leave balances per employee by overtime eligibility.

**Chart VII**

Average days of vacation and sick leave per employee by gender identity.

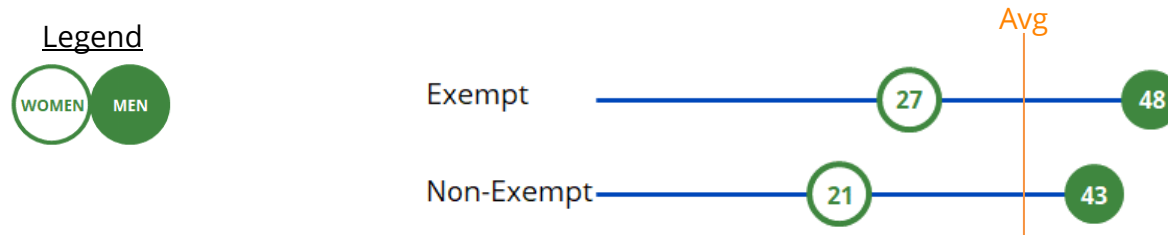


**Chart VIII**

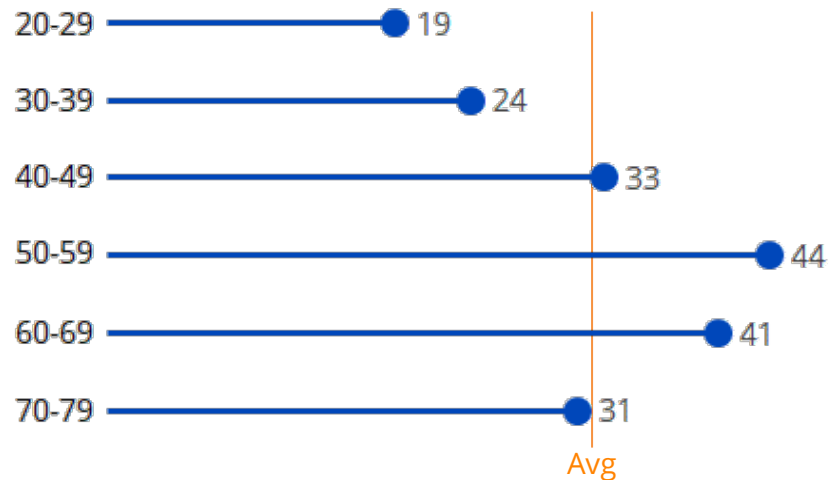
Average days of leave per employee by overtime eligibility and gender identity.

**5) by Overtime Eligibility and Gender Identity (in days):**

**Chart VII** from the previous page can be disaggregated further to provide a comparison of each gender identity within the eligibility groups.

**6) by Age Group (in days):**

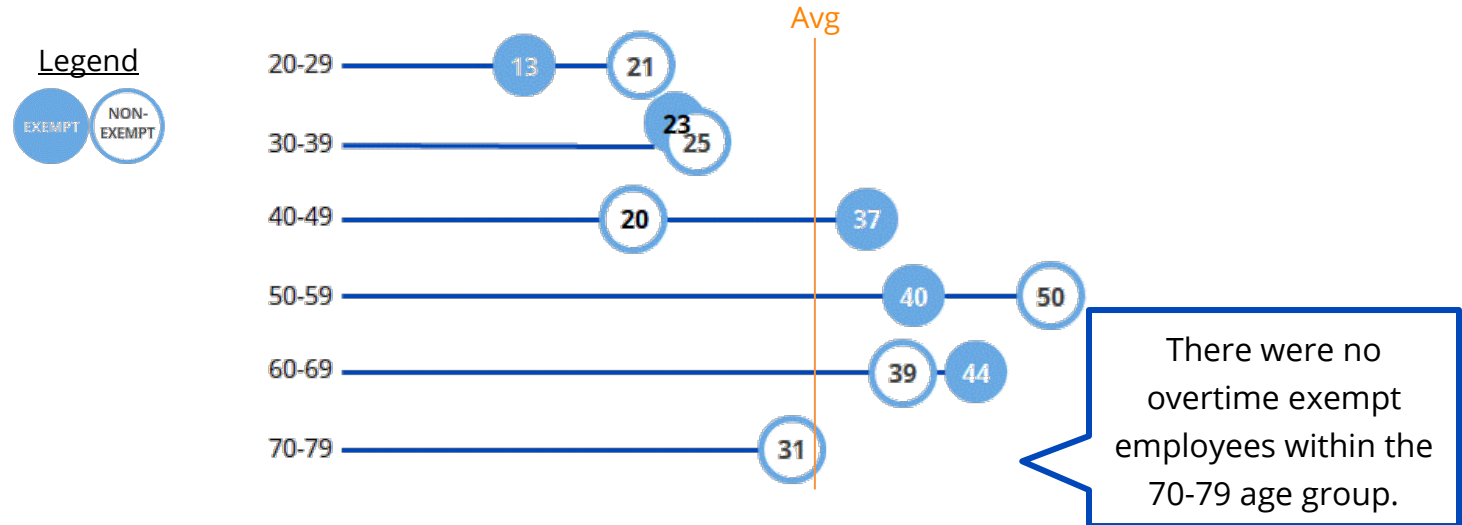
Employee leave balances grow expectedly with age groups and begin to fall as the number of employees within the older age groups decreases. The average age for County employees is 44 years.

**Graph VII**

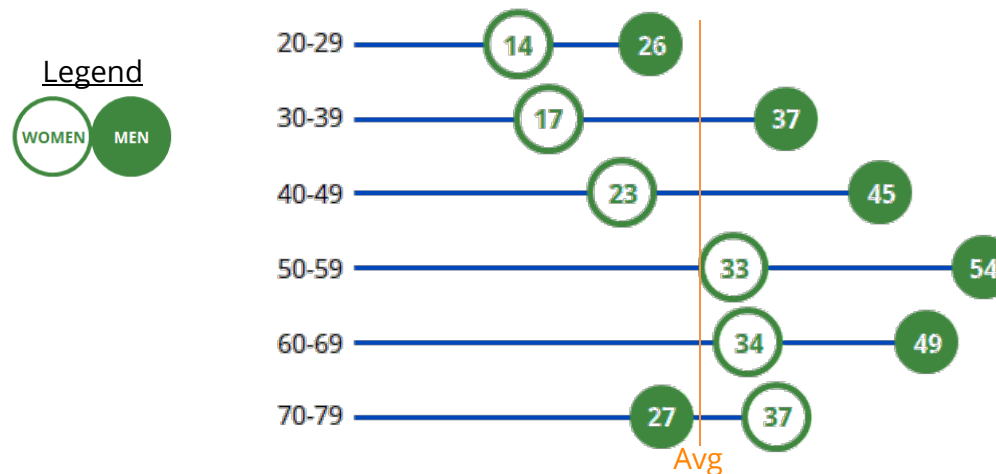
Average days of vacation and sick leave balances per employee by age group.

**Graph VIII**

Average days of vacation and sick leave balances by age group and overtime eligibility.

**7) by Age Group and Overtime Eligibility (in days):****8) by Age Group and Gender Identity (in days):**

Gender identity leave imbalances can be seen within age groups when disaggregated. The imbalance is at its greatest rate for the 30-39-year-old range at 2.2:1.

**Graph IX**

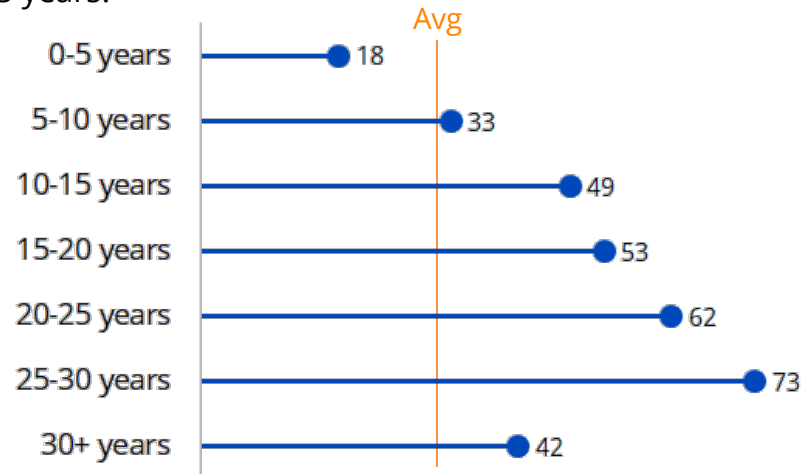
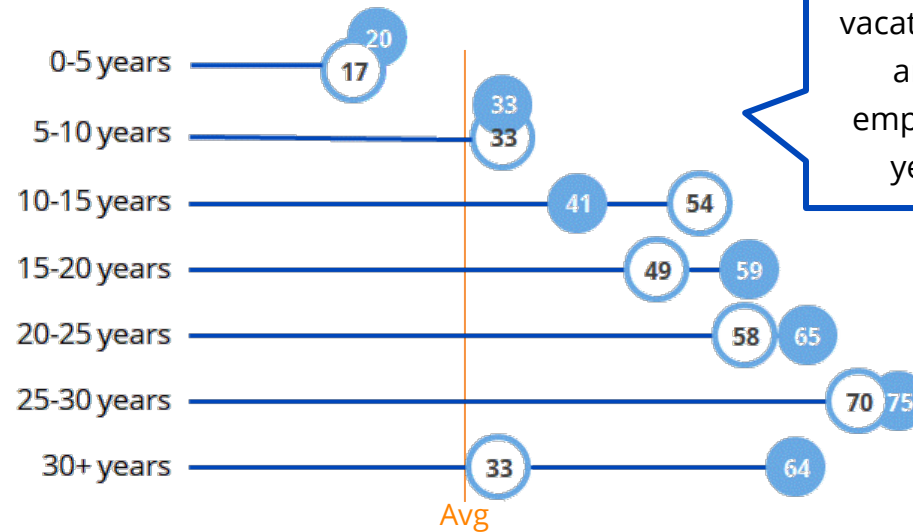
Average days of vacation and sick leave balances by age group and gender identity.

**Graph X**

Average days of vacation and sick leave balances per employee by length of employment.

**9) by Length of Service (in days):**

Employee leave balances grow expectedly with longevity of employment. Leave hour accrual increases at a higher rate based on months of service with the County. The average length of service was 8.3 years.

**10) by Length of Service and Overtime Eligibility (in days):**

The average days of vacation and sick leave are identical for employees with 5- 10 years of service.

**Graph XI**

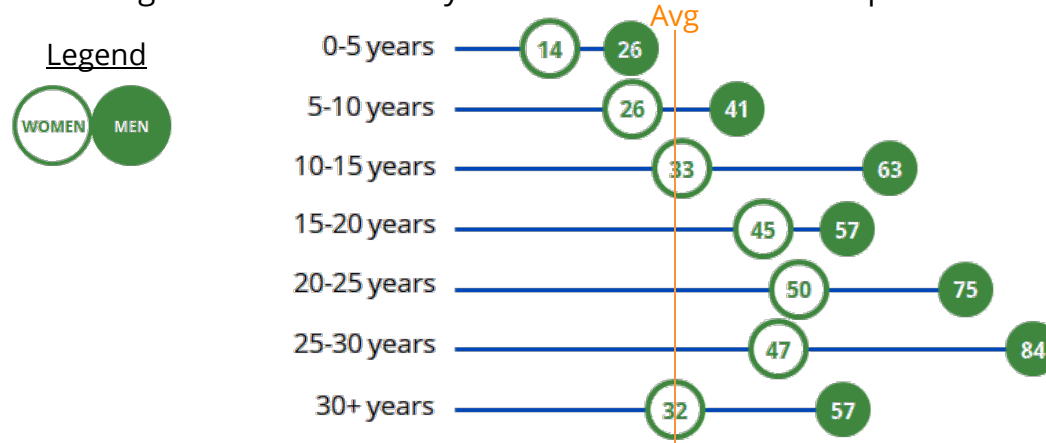
Average days of vacation and sick leave balances per employee by length of employment and overtime eligibility.

**Graph XII**

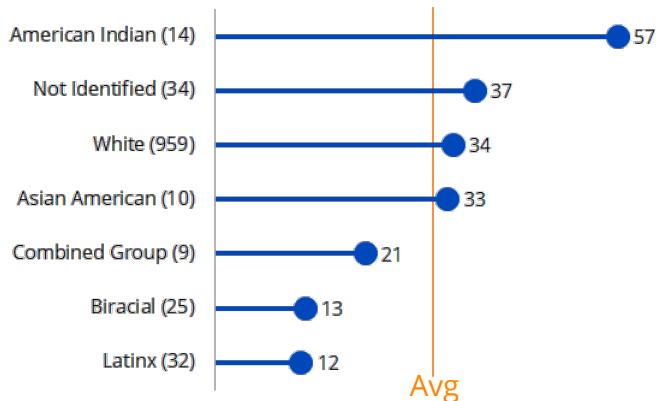
Average days of vacation and sick leave balances per employee by length of employment and gender identity.

**11) by Length of Service and Gender Identity (in days):**

Gender identity imbalances continue to be observed within the service length grouping, although men in the 15-20 year of service have an unexplained balance dip.

**12) by Ethnic Identity (in days; total number of employees included in each group):**

Deschutes County Human Resources collects the employee ethnic identity from the initial application for employment. Prospective employees are also provided the option to choose biracial or to not identify ethnicity. Groups which had less than ten employees were combined to protect the anonymity of the individuals. These groups included employees who identified as Pacific Islander and African American.



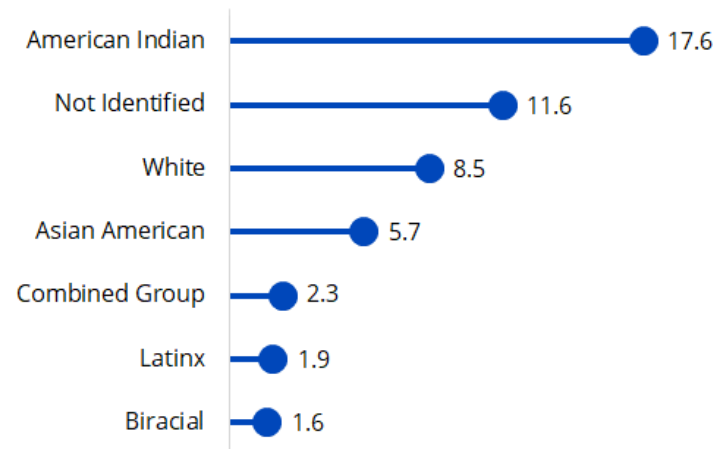
The Deschutes County population is 86.2% white, which is reflected in the makeup of the County's employees working in Fiscal Year 2022 at 88.6%.

**Graph XIII**

Average days of vacation and sick leave balances per employee within identified ethnic group.

**Graph XIV**

Average length of service in years per employee within identified ethnic group.

**13) by Ethnic Identity and Length of Service (in years):**

The higher average days of leave seen in **Graph XIII** within each ethnic group are a direct correlation to the average length of service in years for each group.

**2.3.4 – COUNTY AVERAGE ACCRUAL AND USAGE PER EMPLOYEE:**

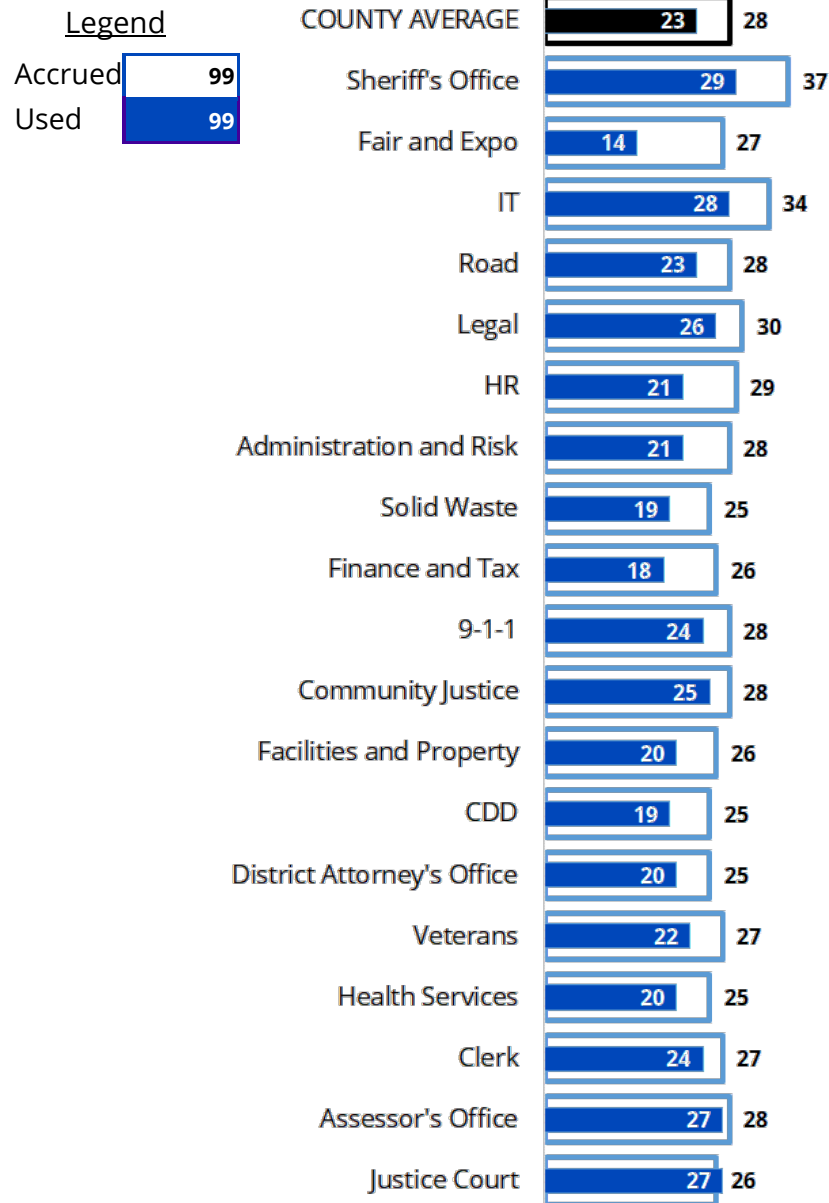
Deschutes County employees accrued vacation and sick leave at an average of 226 hours for Fiscal Year 2022 or the equivalent of 28 days based on an eight hour work day. Employees used an average of 182 hours for Fiscal Year 2022 or the equivalent of 23 days. Charts and graphics in the following analysis which refer to days of leave were calculated on an eight hour work day for consistency. Many departments, offices, and functions may work a variety of hourly schedules over eight hours.

**1) by Department/Office (in days):**

Again, Departments/Offices with similar locations and functions were combined for simplicity in the following graph. County average of accrual and usage per employee is shown at the top of the graph. The order of the departments/offices was maintained from **Graph V** for consistency and comparison of average accrual and usage impact on vacation and sick leave balances.

# **Graph XV**

Average days of accrual and usage per employee in Fiscal Year 2022 by department/office.

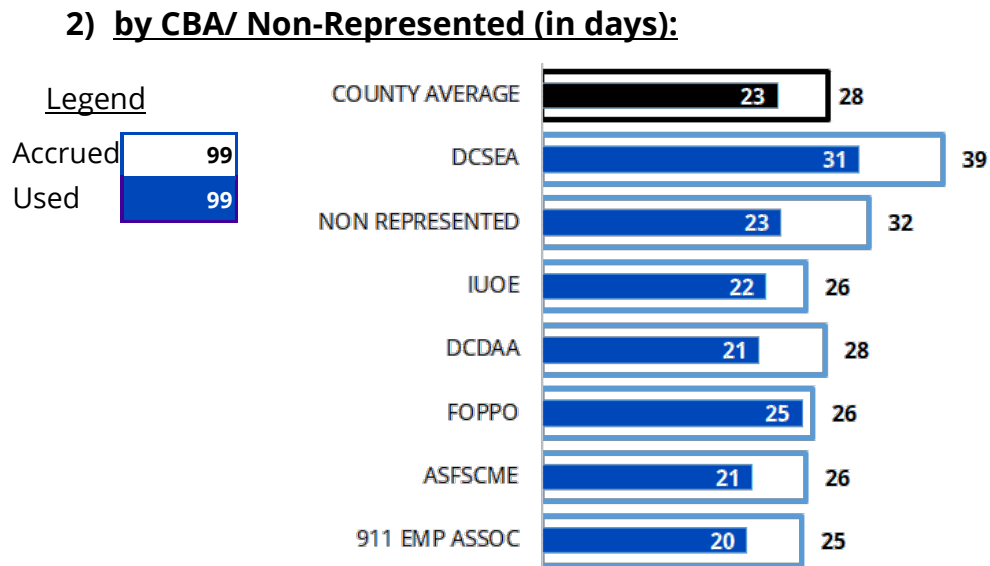


Although the Fair and Expo average accrual is less than the County average, their low average usage translates to the higher average leave balances seen in **Graph V**.

Justice Court averaged higher usage than accruals for Fiscal Year 2022.

**Graph XVI**

Average days of accrual and usage per employee in Fiscal Year 2022 by representation.



DCSEA represented employees' vacation and sick leave includes additional time in lieu of holidays equating to 13 days of accrued time.

**3) by Overtime Eligibility (in days):**

As shown in **Chart I**, non-exempt employees make up 61% of the County workforce.

**4) by Gender Identity (in days):****Graph XVII**

Average days of accrual and usage per employee in Fiscal Year 2022 by overtime eligibility.

**Graph XVIII**

Average days of accrual and usage per employee in Fiscal Year 2022 by gender identity.

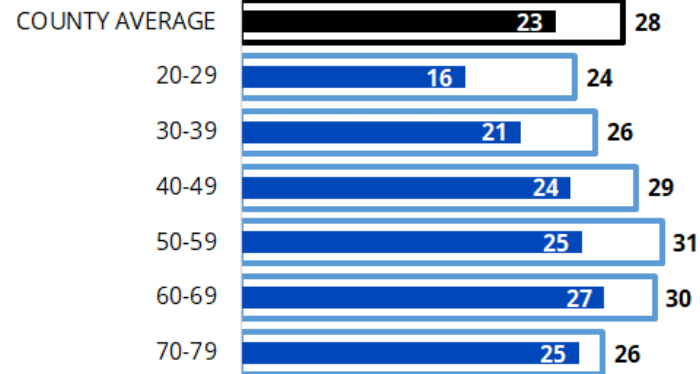
### Graph XIX

Average days of accrual and usage per employee in Fiscal Year 2022 by age group.

#### 5) by Age Group (in days):

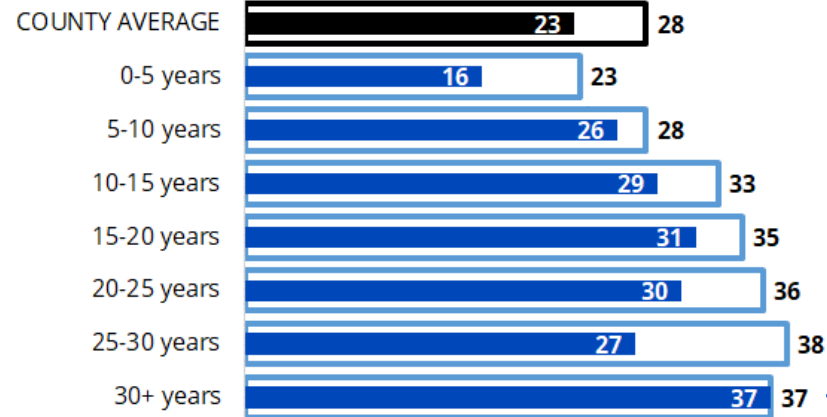
Legend

Accrued	99
Used	99



Employees in the 20-29 age group saved more vacation and sick leave than the other age groups on average in Fiscal Year 2022.

#### 6) by Length of Service (in days):



Employees with more than 30 years of service used as many days as were accrued on average in Fiscal Year 2022.

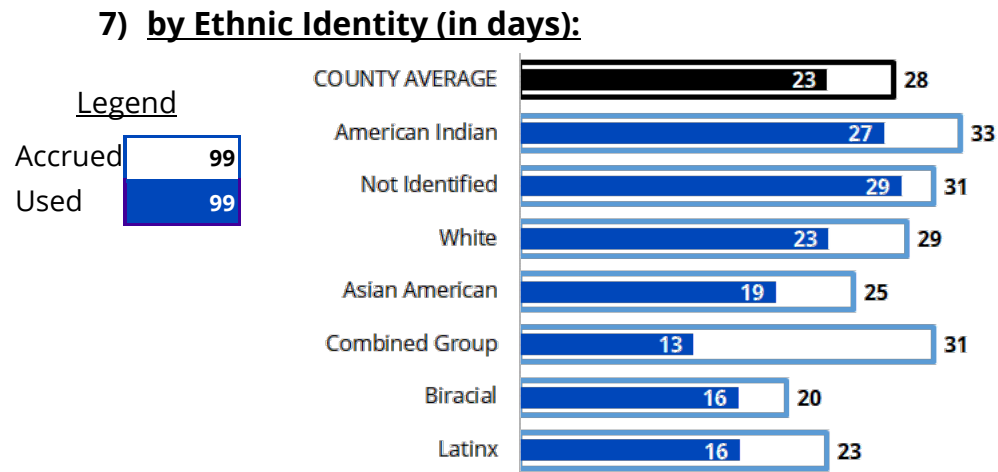
### Graph XX

Average days of accrual and usage per employee in Fiscal Year 2022 by length of service.



**Graph XXI**

Average days of accrual and usage per employee in Fiscal Year 2022 by ethnic group.



Employees in the Combined Group (Pacific Islander and African American) had the largest margin between usage and accrual on average in Fiscal Year 2022.

**2.3.5 – COUNTY EMPLOYEE OPTIONAL CASH OUT:**

County employees are offered optional usage programs consisting of pre-retirement cash outs and annual cash outs which convert vacation and sick leave hours into additional pay. Pre-retirement cash outs are for employee within three year of retirement. Annual cash out options occur in April for most, except DCSEA represented employees who have the option in October. Rules surrounding the amount of hours subject to cash out, eligibility requirements, and limitations vary by CBAs and County policy for non-represented employees.

**Pre-Retirement Election:****1) by CBA/Non-Represented, Gender Identity, and Overtime Eligibility (total number of employees included in each group):**

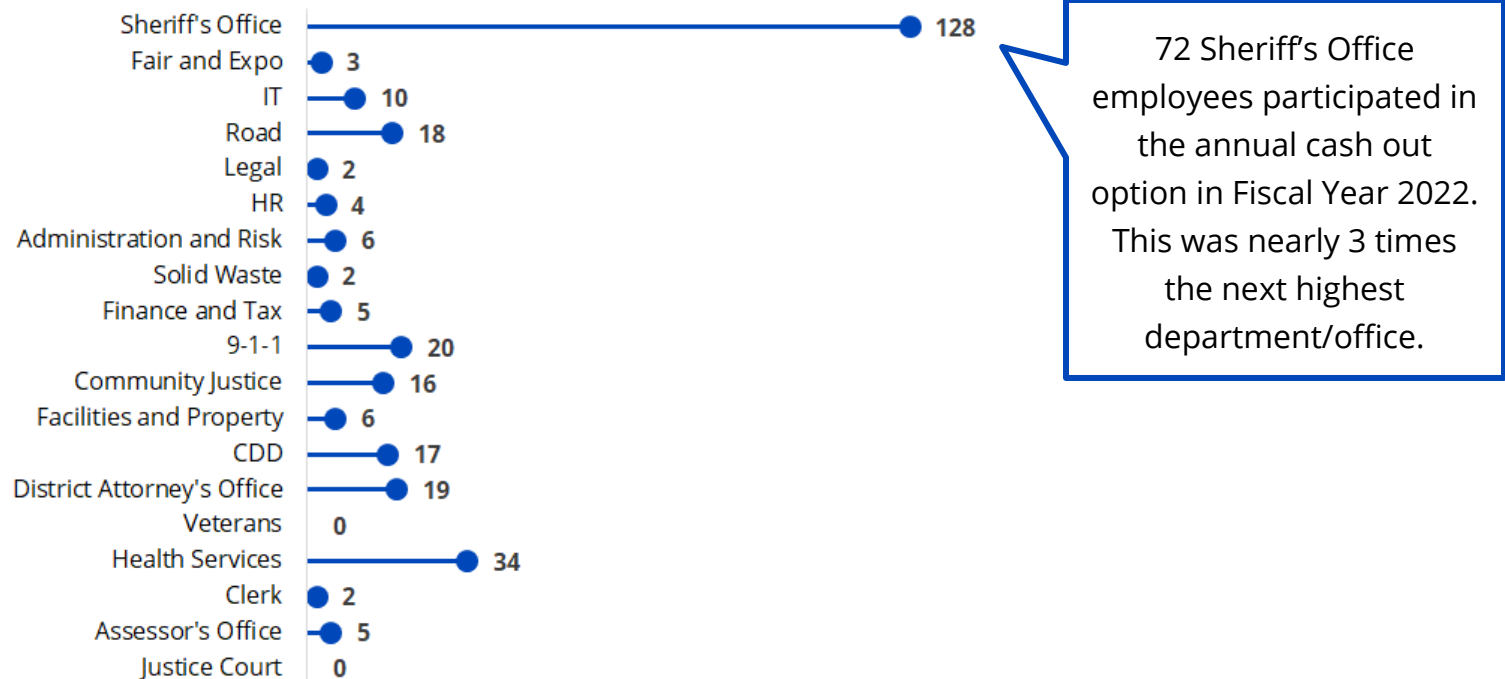
Fourteen (14) employees opted to use the pre-retirement cash out option in Fiscal Year 2022. Total hours converted to pay equates to 53 weeks of vacation and sick leave.

**Diagram II**

Demographic information of employees participating in the pre-retirement cash out option for Fiscal Year 2022.

**Annual Cash Out Election:****1) by Department/Office (in weeks):**

Departments/offices budget for payouts of employee cash out options as an additional expense within their overall personnel costs. Total hours converted to pay are shown as weeks of vacation and sick leave. The order of the departments/offices was maintained from **Graph VII** for consistency.

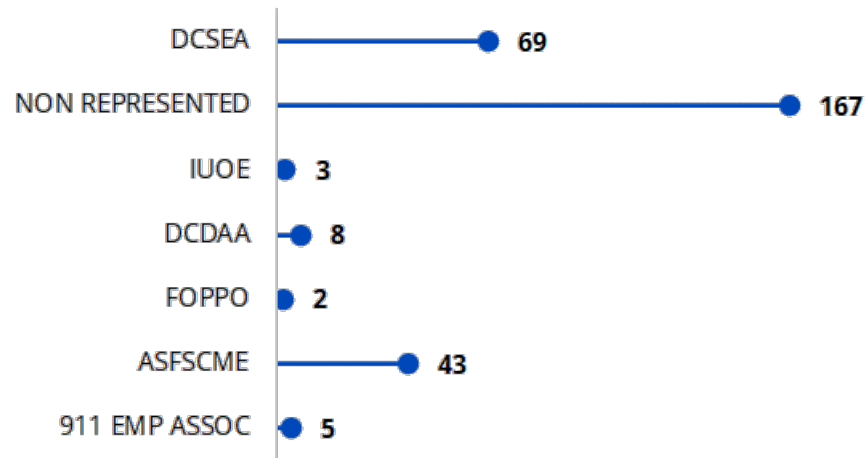
**Graph XXII**

Total weeks of vacation and sick leave cashed out in Fiscal Year 2022 by department/office.

### Graph XXIII

Total weeks of vacation and sick leave cashed out in Fiscal Year 2022 by representation.

#### 2) by CBA/Non-Represented (in weeks):

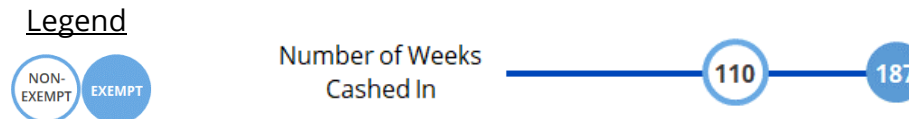


DCSEA represented employees forfeit vacation leave greater than 360 hours on April 1<sup>st</sup> each year. The annual cash out option is one method to reduce hours under the maximum.

### Chart IX

Total weeks of vacation and sick leave cashed out in Fiscal Year 2022 by overtime eligibility.

#### 3) by Overtime Eligibility (in weeks):



#### 4) by Gender Identity (in weeks):



### Chart X

Total weeks of vacation and sick leave cashed out in Fiscal Year 2022 by gender identity.

### 3. Management responses

#### Human Resources Department

Kathleen Hinman,  
Human Resources  
Director



#### HUMAN RESOURCES

Date: December 7, 2022  
To: Aaron Kay, Performance Auditor  
From: Kathleen Hinman, Human Resources Director  
Re: Human Resource's Response to Audit Report #2122-17 Vacation and Sick Leave

Thank you for the opportunity to review and comment on your report, *Vacation and Sick Leave Report #2122-17* (the Audit). Human Resources values your review and the perspective it provides management as work to evaluate and refine our practices and systems now and into the future.

HR appreciates the attention the Audit brings in its broad analyses of overall County information as well as including demographic information such as employee age, length of service, gender identity, and ethnic identity. These analyses will help in providing perspective when we review paid time off benefits.

Below are responses to the Audit recommendations.

- 1) **Recommendation: The NOVAtime system be configured to not allow for negative balance adjustments or alternative methods should be explored.**

Defer to Payroll for general application. In situations when the County has advanced knowledge that an employee is, or will be, on leave and will exhaust their paid leave accruals, HR is supportive of the County exploring alternative methods so that timely adjustments to monthly accruals may occur to avoid resulting in a negative balance.

- 2) **Recommendation: The County explore the cost-benefit of additional NOVAtime data reporting services.**

Agree. HR would like the review to include other time and attendance systems as well and not be limited to additional NOVAtime services. Specifically, systems that integrate with the County's Finance and Human Resources system Tyler ERP should be considered. A time and attendance system that integrates with Tyler ERP which would improve reporting,

## Human Resources Department (continued)

processing, and data management as well as enhance user experience by having accruals available in Employee Self Service.

- 3) **Recommendation: The County continue to explore solutions to transition test employee accounts outside of the production environment.** Defer to Finance.
- 4) **Recommendation: Payroll develop a system to ensure NOVAtime and Munis employee information are in sync and correct.**  
Defer to Finance.
- 5) **Recommendation: Payroll eliminate retained balances from all separated employees and continue to work with the vendor on a solution to discontinue system generated leave time for separated employees.**  
Defer to Finance.
- 6) **Recommendation: Human Resources and Payroll establish secondary review processes for employee leave balance limit calculations and adjustments.**  
Agree. HR will conduct a secondary review of the completed list of employee leave hours to be sold, transferred, and forfeited prior to submitting to payroll to make the adjustments. Estimated completion date is April 30, 2023.
- 7) **Recommendation: The County develop a process to support supervisors in monitor employees' use of vacation leave in compliance with policy.**  
Agree. The County has a policy covering expectations for employee's use of vacation leave. It is a supervisor's responsibility to hold their employees accountable to all policies, including this one. Human Resources will update the attendance expectations in the employee performance evaluation form to include this review. This will prompt supervisors to review all aspects of an employee's attendance and use of leave with respect to County policies.
- 8) **Recommendation: The County revise leave policy HR-16 to be in conformance with State law.**  
Agree. HR has drafted an Oregon Paid Sick Time (OPST) Policy which will be ready for consideration soon. Additionally, HR will update HR-16 to comply with the OPST law and will present for consideration in coordination with the OPST policy. Estimated completion date is March 1, 2023.
- 9) **Recommendation: The County update policy and CBA contract language to align with practice.**  
Agree. HR will engage with unions, as each CBA is bargained, to align CBA language with practice. Estimated completion date for the County policy update is July 1, 2023 and CBAs will be updated as they expire and require renewal.

**Human  
Resources  
Department**  
(continued)

**Finance  
Department**  
Robert Tintle,  
Chief Financial  
Officer

**10) Recommendation: The County to consider adjustments to the leave cash out policies to further address constructive receipt.**

Agree. Human Resources is working with Finance and Legal on understanding the impact of constructive receipt, if any, on County policies and practices. We have already consulted with outside legal and benefit consultants, and timing is dependent on consultant and staff availability.



**FINANCE DEPARTMENT**

Date: December 7, 2022  
To: Aaron Kay, Performance Auditor  
From: Robert Tintle, Chief Financial Officer  
Re: Finance's Response to Audit Report #21/22-17 Vacation and Sick Leave

Thank you for the internal audit of the vacation and sick leave information contained within the NOVAtime (timesheet) and Munis (accounting/ human resources) systems. I appreciate your effort in this area as we work together to refine and advance our automated systems.

Below are responses to the internal audit recommendations.

**1) Recommendation: The NOVAtime system be configured to not allow for negative balance adjustments or alternative methods should be explored.**

Agree. The NOVAtime system is already configured to not allow for negative balances based on employee usage. Negative balances are the result of manual correcting adjustments processed by payroll staff since the monthly accrual is front-loaded at the beginning of the month for use by the employee prior to it being earned. As noted in the report, only one employee was overpaid due to negative accrual adjustments. This one-time and rare occurrence was due to an oversight when the final paycheck was calculated. Typical controls include a review of accruals and hours paid. Finance will enhance the review and monitoring of timesheets and final paycheck calculations and consider any alternative methods related to negative balances.

## Finance Department (Continued)

- 2) Recommendation: The County explore the cost-benefit of additional NOVAtime data reporting services.**  
Agree. Exploring the cost-benefit of additional NOVAtime reporting services could be beneficial to the County. Being able to pull large amounts of data much quicker, would result in time savings for payroll staff. This would also eliminate the significant slowdown of the NOVAtime system which occurs currently when large reports are being processed. Payroll will explore this further after the pay period alignment project is completed in calendar year 2023.
- 3) Recommendation: The County continue to explore solutions to transition test employee accounts outside of the production environment.**  
Agree. Finance will continue to work with the vendor and explore other solutions to transition test employee accounts outside of the production environment.
- 4) Recommendation: Payroll develop a system to ensure NOVAtime and Munis employee information are in sync and correct.**  
Agree. Payroll will develop periodic reports that will compare Munis information and NOVAtime profile information to ensure employees' information is up-to-date and accurate in NOVAtime. Estimated completion date, March 31, 2023.
- 5) Recommendation: Payroll eliminate retained balances from all separated employees and continue to work with the vendor on a solution to discontinue system generated leave time for separated employees.**  
Agree. This is already a practice. Off-cycle payroll review already includes a secondary review of TML balances being cleared out. It is a system issue that TML system accruals randomly reappear. Payroll has been working with NOVAtime since implementation to find a solution. Payroll will continue to work with the vendor for a solution to this system issue.
- 6) Recommendation: Human Resources and Payroll establish secondary review processes for employee leave balance limit calculations and adjustments.**  
Agree. Payroll will create reports to reconcile leave balances annually after the TML sell backs and TML to sick banks transfers have been entered in May. Estimated completion date is June 15, 2023.
- 7) Recommendation: The County develop a process to support supervisors in monitoring employees' use of vacation leave in compliance with policy.**  
Defer to Human Resources.
- 8) Recommendation: The County revise leave policy HR-16 to be in conformance with State law.**  
Defer to Human Resources.

## Finance Department

(Continued)

- 9) **Recommendation: The County update policy and CBA contract language to align with practice.**  
Defer to Human Resources.

- 10) **Recommendation: The County to consider adjustments to the leave cash out policies to further address constructive receipt.**

Agree. Finance, Human Resources and Legal have already consulted with outside legal and benefit consultants on a plan to address any potential constructive receipt issues. The first phase will identify and qualify any constructive receipt issues and, if needed, design a structure going forward. While the exact costs are unknown at this time, it will require a significant investment in outside consultants to review current policies and develop recommendations. Timing will depend upon the availability of consultants.

## Administration

Nick Lelack,  
County  
Administrator



COUNTY ADMINISTRATOR NICK LELACK

Date: December 6, 2022  
To: Aaron Kay, Performance Auditor  
From: Nick Lelack, County Administrator  
Subject: Response to Vacation and Sick Leave Audit

Thank you for the detailed review of vacation and sick leave information. We appreciate your work on this important topic. Please see Administration's responses to specific findings below:

**Recommendation #1 - The NOVAtime system be configured to not allow for negative balance adjustments or alternative methods should be explored.**

We defer to Finance, as this is a technical recommendation.

**Recommendation #2 - Explore the cost-benefit of additional NOVAtime data reporting services.**

We support Finance exploring the cost of additional data reporting services. Payroll will explore this



## Administration (Continued)

further after the pay period alignment project is completed in 2023.

**Recommendation #3 - Continue to explore solutions to transition test employee accounts outside of the production environment.** We defer to Finance, as this is a technical recommendation.

**Recommendation #4 - Payroll develop a system to ensure NOVAtime and Munis employee information are in sync and correct.**

We agree with this recommendation. Finance has estimated that this will be complete by March 31, 2023.

**Recommendation #5 - Eliminate retained balances from all separated employees and continue to work with the vendor on a solution to discontinue system generated leave time for separated employees.**

We agree with this recommendation. This is already a practice. A system issue is causing accruals to reappear. Finance will continue to work with the vendor on this issue.

**Recommendation #6 - Human Resources and Payroll establish secondary review processes for employee leave balance limit calculations and adjustments.**

We agree with this recommendation. Finance and HR estimate they will be able to complete this by June 15, 2023.

**Recommendation #7 - The County develop a process to support supervisors in monitoring employees' use of vacation leave in compliance with policy.**

We believe this review should occur by supervisors. We will review this recommendation with Department Heads at our next Department Head meeting.

**Recommendation #8 - Revise leave policy HR-16 to be in conformance with State law.**

We agree with this recommendation. HR has drafted an Oregon Paid Sick Time (OPST) Policy for consideration. HR will update HR-16 to comply with the OPST law and will present for consideration in coordination with the OPST law. Estimated completion date is March 1, 2023.

**Recommendation #9 - Update policy and CBA contract language to align with practice.**

We agree with this recommendation. We will engage in this process during future contract negotiations with each union to align CBA language with practice. Estimated completion date for the County policy

## Administration (Continued)

update is July 1, 2023 and CBAs will be updated as they expire and require renewal.

### **Recommendation #10 - The County to consider adjustments to the leave cash out policies to further address constructive receipt.**

Finance, Human Resources and Legal have already consulted with outside legal and benefit consultants on a plan to address any potential constructive receipt issues. The first phase will identify and qualify any constructive receipt issues and, if needed, design a structure going forward. While the exact costs are unknown at this time, it will require a significant investment in outside consultants to review current policies.

## Appendix A: Objective, Scope, and Methodology



*"Audit objectives" define the goals of the audit.*

### **i. OBJECTIVES and SCOPE**

#### Objectives included:

Based on audit scope, work plan and further discussions with County management, the objectives developed were limited to include:

- 1) Analysis and assessment of employee leave time to inform County policy and procedures.
  - a) Usage in comparison to budgeted department/office costs.
- 2) Identify opportunities to improve and make more efficient.
- 3) Be aware of any issues with compliance with federal and state regulations and requirements, as may be applicable.

#### Scope and timing:

The audit commenced in June 2022 and extended into November 2022. The focus of the review was on personnel data and information maintained by County information technology, fiscal, and HR departments, as of June 2022, relevant to these objectives. We reviewed any historical information to support the conclusions as necessary. The scope of the audit did not include all aspects of internal controls employed and was limited to hours classified as vacation and sick leave.



*"Audit procedures are created to address the audit objectives"*

## ii. METHODOLOGY

### Audit procedures included:

- Interviews of selected departmental management and staff knowledgeable of the various processes covered to support the audit objectives.
- Review applicable collective bargaining agreements, County policies and procedures for compliance requirements.
- Evaluation of the reliability of data provided from the NOVAtime Time Management Online system. During the evaluation, it was found certain limitations of the data reporting prevented the audit from analysis of data prior to Fiscal Year 2021-22.
- Detailed tests and analysis of available data to support the audit objectives including the following:
  - evaluation of leave balances effect on department/office budget
  - operation of leave activity including manual adjustments
  - compliance with collective bargaining agreements and County policy
  - employee options within collective bargaining agreements and County policy
  - selected categories for the purpose of informing policy

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.

(2018 Revision of Government Auditing Standards, issued by the Comptroller General of the United States.)

The County Internal Auditor was created by the Deschutes County Code as an independent office conducting performance audits to provide information and recommendations for improvement.

{End of Report}

***Please take a survey on this report by clicking on the attached link:***

<https://www.surveymonkey.com/r/2122-17>



If you would like to receive future reports and information from Internal Audit or know someone else who might like to receive our updates, sign up at <http://bit.ly/DCInternalAudit>.