



FY 1986 TRIENNIAL PERFORMANCE AUDIT OF  
SOUTHERN CALIFORNIA RAPID TRANSIT DISTRICT

EXECUTIVE SUMMARY  
ON PHASE II AUDIT RESULTS

OCTOBER 3, 1986

*Price Waterhouse*



October 3, 1986

Mrs. Sharon A. Neely  
Manager, Transit Programs  
Los Angeles County Transportation  
Commission  
403 West Eighth Street, Suite 500  
Los Angeles, CA 90014

Dear Mrs. Neely:

Enclosed herewith is an Executive Summary on the three tasks covered in Phase II of the FY86 Triennial Performance Audit of the Southern California Rapid Transit District (RTD), namely:

- o Operator absenteeism,
- o Equipment maintenance employee absenteeism, and
- o Workers' compensation.

The detailed background analysis and results of each individual task are incorporated in three reports, forwarded to you under separate cover.

We wish to express our gratitude to you, Commission staff and RTD staff for the assistance provided us in the preparation of this Executive Summary and the detailed reports.

Very truly yours,

*Price Waterhouse*

Enclosure

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## LIST OF EXHIBITS

### Exhibit

- i-1 Data Items to be Included in RTD Reports
- i-2 Summary of Operator Absence Reduction Suggestions
- i-3 Summary of Equipment Maintenance Employee Absence  
Reduction Suggestions
- i-4 FY87 Plans and Initiatives for Improvements in the  
Workers' Compensation Management Program
- i-5 Recommendations for Improving the Management of Workers'  
Compenstaion

## EXECUTIVE SUMMARY

This Executive Summary highlights the results of the FY 1986 Phase II Triennial Performance Audit of the Southern California Rapid Transit District (RTD). The performance assessment was conducted by Price Waterhouse under contract to the Los Angeles County Transportation Commission (LACTC), the entity with legal responsibility for ensuring the conduct of this third party review. The Phase II Performance Audit investigated three high cost savings areas identified in the Phase I Report dated April 1986. These areas are operator absenteeism, equipment maintenance employee absenteeism and workers' compensation. The detailed findings, conclusions and recommendations prepared as a result of the investigation are documented in three separate reports.

One of the driving principles of this performance review was to identify cost savings opportunities for the RTD. Based on RTD's operating cost growth per vehicle service hour (which exceeded the growth in the Los Angeles/Long Beach/Anaheim area Consumer Price Index) in FY84, RTD was subject to losing discretionary (i.e., performance-based) funds under the Transportation Performance Monitoring Program (TPM). This program encompasses all Los Angeles area transit operators, is administered by LACTC, and provides a discretionary pool of transit funds as a performance incentive for operators. It was mutually agreed by LACTC and RTD that if the District could demonstrate cost efficiency improvements equal to the amount of the performance-based funds in question (i.e., totalling \$10,141,350 or two percent of RTD's FY86 budget), RTD would still earn the performance bonus.

The estimated cost savings opportunities identified in the Phase II investigation include \$4.4 million in operator absence

reduction, \$1.5 million in equipment maintenance employee absence reduction, and \$3 to \$5 million in workers' compensation cost reduction. This alone totals \$8.9 to \$10.9 million in estimated cost savings. The Phase I report identified additional cost reduction opportunities estimated at between \$2.5 million and \$7.8 million in savings, bringing the estimated potential cost savings figure to between \$11.4 million and \$18.7 million. Given that the RTD has additional cost reduction ideas not included in any of the above figures, the potential for realizing the savings required to earn the performance-based funds is favorable.

The Phase II performance investigation resulted in recommendations which are broadly divided into three categories:

- o Programs to be implemented to achieve cost savings;
- o Analysis needed to evaluate additional opportunities identified; and
- o Performance and cost reporting requirements.

In support of the intent of the third party performance appraisal, and in order to earn the performance funding bonus discussed earlier, RTD must report progress to the LACTC. The extent of the reporting requirement is outlined in Exhibit i-1, and explained in detail in the three final Phase II reports.

The remainder of this document summarizes the significant findings, conclusions and recommendations found in those reports.

#### A. OPERATOR ABSENTEEISM

Operator absenteeism was identified as a significant opportunity for improvement in both the FY83 and FY86 performance audits. In FY85, operator absences were estimated to cost RTD \$18.6 million annually. Operators are estimated to be absent from work an

DATA ITEMS TO BE INCLUDED  
IN RTD REPORTS ON  
OPERATOR AND MAINTENANCE EMPLOYEE ABSENTEEISM  
AND WORKERS' COMPENSATION

	(1)	(2)	
	<u>RTD</u>	<u>LACTC</u>	
	<u>Monthly</u>	<u>Quarterly</u>	<u>Annually</u>
<u>OPERATOR ABSENTEEISM</u>			
Absence Rate:			
Full-Time Operators	X	X	X
Part-Time Operators	X	X	X
Absence Cost:			
Full-Time Operators	X	X	X
Part-Time Operators	X	X	X
<u>MAINTENANCE ABSENTEEISM</u>			
Absence Rate:			
Mechanics	X	X	X
Service Attendants	X	X	X
BRAC Employees	X	X	X
Absence Cost:			
Mechanics	X	X	X
Service Attendants	X	X	X
BRAC Employees	X	X	X
<u>WORKERS' COMPENSATION</u>			
Total Cost	X	X	X

FOOTNOTES:

1. Internal RTD report.
2. Report prepared by RTD for submission to LACTC.

average of 32 days per person per year, exclusive of indefinite leave, military leave and unprovoked attack.

While the work environments are not directly comparable, RTD's driver absence rates are high relative to other government agencies. The Bureau of Labor Statistics reported time lost due to absences up until 1981. In 1979 and 1980, the national absence rate reported for all government employees was less than 6 days per employee per year. The same rate was reported for all public transportation employees. In 1983 the City of Los Angeles reported that, on average, employees were absent just under 9 days per person per year (City of Los Angeles, Sick Time Use). More recent literature indicates that about 8 days per employee per year is a reasonable estimate of industrial employee absences currently. A comparison of RTD driver absences with several other transit agencies indicated that RTD's rates exceed those of their peers.

The purpose of the operator absenteeism review is to analyze absences from the standpoint of management controls and to suggest absence reduction strategies. In keeping with this focus, the report addresses the characteristics of operator absences, the contract provisions related to absence, an operator absence control survey of other transit properties, suggestions to improve absence control programs and a recommended monitoring methodology for reporting and costing operator absences.

#### 1. Characteristics of Operator Absences

Between FY82 and FY85 annual days lost per full-time operator due to unscheduled absence increased approximately six percent, to about 32.7 days. Over the same period, part-time operator absenteeism rose 64 percent -- to 21 days per person per year in FY85.



The analysis of RTD operator absences is based on data supplied by the RTD Transit Operating and Trends System (TOTS). The data was modified to exclude military and long-term leave. The significant information derived from TOTS includes:

- o Absenteeism is concentrated in a small portion of the RTD operator workforce. We found that 60 percent of the workforce accounted for only 20 percent of all absences, and averaged 26 days per operator per year. Chronically absent operators, representing the worst performing 20 percent of the workforce, were found to account for over half of all absences and average 81 days of unscheduled absence per driver per year.
- o Absenteeism (i.e., chronic absence) is distributed across all twelve operating divisions. Absence rates are not statistically correlated with the number of operators assigned to a division or the number of drivers per supervisor, although absence rates do vary significantly between divisions.
- o The absence problem is almost equally characterized by one-day and by month-long (or longer) absences, which represent two very different types of absences. First, one-day absences only account for 26 percent of total unscheduled absence days lost. Second, absences of one-month or more account for 34 percent of total days lost (again, this number excludes all employees on indefinite leave).
- o The use of voluntary overtime can be used to recoup lost wages associated with short-term absences according to the labor agreement and routine practice. Voluntary overtime is widespread amongst RTD drivers.

- o There was no significant statistical relationship found between absences and the availability of scheduled leave for RTD drivers. In fact, there is little seasonality in the absence rate of operators.

In summary, the characteristics of the operator absence profile show that chronic absenteeism is limited to a small proportion of the workforce. Also, short-term absence is high amongst the entire workforce and appears to be encouraged by the voluntary overtime provision of the RTD-UTU contract.

## 2. Contract, Work Rules, Programs

The primary source of driver attendance rules is the labor agreement between RTD and the United Transportation Union (UTU) which covers all bus operators, effective February 1, 1985. Most driver absence policies are codified in the contract, while non-driver absence programs are generally limited to management policies (i.e., they are not generally contractual obligations). This can be advantageous, as being in the formal labor agreement lends the attendance requirements an elevated sense of credibility. However, a disadvantage occurs when a change to the absence controls is required to curtail excessive absenteeism because of time limitations and negotiated tradeoffs.

The current labor agreement is in effect until late FY88. The primary deterrents to absenteeism found in the contract include separate disciplinary policies for unscheduled absences, absent without permission (AWOL) and missouts; sick pay provisions related to sick leave accumulation, sick pay and documentation; and a vacation accumulation policy which includes attendance in vacation determinations. The overtime pay provision appears to potentially encourage short-term absences by allowing employees to make up and exceed lost pay due to absences.

Several management initiatives compliment the labor agreement controls over absenteeism, including:

- o An operator performance incentive program which recognizes positive attendance and outstanding performance on a monthly and annual basis.
- o Light duty/early return to work allows the operator to engage in light duty on a temporary basis during rehabilitation/recovery from a disabling injury. This program was made mandatory in September 1986.
- o Visiting Nurse Program and visiting supervisors intend to cut back on longer incidents of absence, where the District's nurse or a supervisor visits sick employees at home to check on their progress.
- o The Employee Assistance Program includes free drug, alcohol, financial and family counseling or referrals on a voluntary basis, which is intended to reduce absenteeism.

Overall, the RTD has a balanced program for controlling absenteeism. However, based on the actual operating results discussed above, improvements are needed to reduce the extent and cost of driver absences.

### 3. Operator Absence Program Survey

We conducted a survey of seven transit operators to gather information on their absence control policies and programs. The agencies selected were:

- o Chicago Transit Authority (CTA)
- o Metropolitan Transit Commission, Minneapolis (MTC)
- o New York City Transit Authority (NYCTA)

- o Sacramento Regional Transit District (RT)
- o San Diego Transit Corporation (SDTC)
- o Seattle Metro (METRO)
- o Washington Metro Area Transit Authority (WMATA)

Based upon their responses it was evident that the approaches to absence policies and programs are wide and varied. While the RTD exhibited incentive programs similar to other operators, the program of progressive discipline at the District is less restrictive than the surveyed operators in three ways: (1) other operators count the number of absence incidents and their duration (RTD uses incidents alone); (2) other operators hold drivers accountable for twelve-months of performance, the RTD uses six; and (3) the other operators combine all unscheduled absences into a single program, RTD has three unrelated programs which allow operators to accumulate a larger number of absences before disciplinary action is taken. Overall, the RTD's programs are less restrictive than the corresponding programs of their peers.

#### 4. Suggested Absence Program Improvements

As recognized by RTD in its current absence control programs, there are three separate target groups of employees for absence reduction -- each requiring different programs to gain improvements. These are: (1) employees with good to excellent attendance, which includes about 30 percent of the workforce; (2) employees with marginal attendance records, which includes about half the workforce; and (3) employees with poor attendance records, which includes about 20 percent of the workforce.

The specific improvements recommended for RTD's consideration are presented in Exhibit i-2. The exhibit presents the program, whether or not a contract change is needed, the anticipated dollar savings and costs, and the schedule for implementation for a compliment of eleven separate improvement measures. The estimated cost savings to the District from implementing six of these

## SUMMARY OF OPERATOR ABSENCE REDUCTION SUGGESTIONS

TARGET GROUP	SUGGESTED IMPROVEMENT	CONTRACT CHANGE REQUIRED	POTENTIAL SAVINGS PER ANNUM	ADDITIONAL COST	NET SAVINGS	IMPLEMENTATION SCHEDULE
A. Excellent Attendance	1) Expand Operator Recognition Program - Annual, - Monthly	No	\$390,000	30,000	\$360,000	January 1987
	2) Modify Sick Leave Cash-in Program	Yes	Unknown	Unknown (Savings to cost ratio 2 to 1)	Unknown	Late FY 1988
	3) Modify Sick Pay Provision	Yes	\$400,000	None	\$400,000	Late FY 1988
B. Marginal Attendance	1) Combine Missout with General Absence Program	Yes	\$220,000	None	\$220,000	Late FY 1988
	2) Limit VCB overtime to operators that worked a full week	Yes	\$1.85 million	None	\$1.85 million	Late FY 1988
	3) Operator Attendance - a major criterion for conversions	No	20% reduction in Part-Time Absence - \$50,000	None	\$50,000 minimum	March 1987
	4) Modify sick-leave accrual policy	Yes	Unknown	None	Unknown	Late FY 1988
	5) Formalize Screening of job applicants for attendance at prior workplace	No	Unknown	None	Unknown	March FY 1987
C. Poor Attendance	1) Modify progressive discipline schedule for excessive absenteeism - include extent of absence	Yes	\$1.5 million	None	\$1.5 million	Late FY 1988
	2) Require Operators to provide a medical verification when returning to duty from sick leave of 5 or more days	Yes	Unknown	None	Unknown	Late FY 1988
	3) Clarify responsibilities and procedures for monitoring operators on long-term absence	No	Depends on District's formal guidelines	Unknown	Unknown	July 1987
Total			\$4,410,000	\$30,000+	\$4,380,000	

programs approaches \$4.4 million annually. The eleven programs identified are briefly described below. The first three programs apply to employees with excellent attendance; the next five to employees with marginal attendance; and the final three to employees with poor attendance performance.

- o Expand Operator Recognition Program -- There are currently two distinct elements to this program, an annual award program and a monthly award program. The annual program involves two awards for "outstanding operators" and "meritorious operators." RTD could strengthen the qualifying criteria for these two annual awards by disallowing any missouts and unexcused absences (currently allowed) from the program, and by including injury-on-duty absences in the tally. A special recognition could be included (e.g., patch, pin) for operators with perfect attendance.

The monthly award program includes two awards for excellent attendance -- recognition and a cash award, and a sweepstakes which provides a chance of winning a cash award. RTD could likewise strengthen qualification criteria for the monthly awards by including more absence types in the evaluation. The chances of winning a prize in the sweepstakes should be increased.

- o Modify Sick Leave Cash-in Program -- Operators currently can accrue up to 2,120 hours of sick leave at a maximum rate of 96 hours per year. Seventy-five percent of accrued sick leave can be cashed in only upon retirement. As the current policy does not provide an incentive to minimize sick leave for most drivers (i.e., no value is realized from the negotiated fringe benefit if operators are not sick), it is suggested that it be modified to provide some annual benefit from unused sick leave. Allowing the operator to sell some

sick pay accruals back to the agency at a discounted rate is one way to accomplish this, while rewarding good attendance.

- o Modify Sick Pay Provision of Contract -- Operators are currently eligible for sick pay benefits on the second day of absence, unless hospitalized or sick for ten days (in which case sick pay starts on the first day). As approximately 3,470 first day sick leave instances per year are eligible to be paid by RTD -- about 75 percent of which in fact are paid -- the cost is \$400,000 per annum. It is suggested that the ten-day rule be eliminated altogether, and first day sick pay apply to cases of hospitalization only.
  
- o Combine Missout Program with General Absence Program -- Currently, RTD's absence disciplinary program (an amalgam of three unrelated programs) fails to treat absence reduction in a coordinated manner. The differences can be accommodated under a simpler, more comprehensive program by: 1) combining the missout program with the general absence program; 2) assessing type A missouts (i.e., drivers up to 30 minutes late) as half an absence; 3) assessing type B missouts (i.e., absent with late notification) as two absences; 4) eliminating the 90-day missout forgiveness rule; and 5) retaining the present AWOL program.
  
- o Limit VCB Overtime to Operators who Worked a Full Week -- Currently, operators are paid overtime premiums whenever they work on their day off, irrespective of the number of hours actually worked in the week. Voluntary call back (VCB) allows an operator to volunteer for overtime work on their scheduled day off. Limiting VCB overtime to operators who work at least 40 hours during a given week would reduce the overtime premium paid and could reduce discretionary absences as well.

- o Formalize Attendance as a Major Criterion for Conversions -- Currently, operator attendance is considered informally to some extent in converting operators from the part-time to full-time ranks. It is suggested that RTD formally include attendance records as a major criterion for conversions, and communicate this to all employees.
- o Modify Sick Leave Accrual Policy -- At present, all full-time operators are provided a full year's sick leave bank on their anniversary date, thereby encouraging some operators to utilize sick leave for discretionary purposes and/or consume a year's allotment of sick pay while only working a partial year. A monthly accrual of sick leave, based on the number of days worked in a month, would reduce any tendency to use a sick leave bank for other than necessary purposes. It would also be likely to reduce the total number of sick days paid by RTD. This is a normal practice at most transit and non-transit organizations.
- o Formalize Screening of Job Applicants for Attendance at Prior Workplace -- As historical attendance is often a good barometer of what can be expected from a new employee, RTD should consider formally verifying job applicants' previous attendance records to ensure it is hiring dependable individuals. While this is done to some extent now, it should be formalized and be applied routinely.
- o Modify Progressive Discipline Schedule for Excessive Absenteeism by Including Extent of Absences -- Existing progressive disciplinary policies at RTD govern on average only 68 percent of absences (those due to sick leave, missout and AWOP). The remaining 32 percent of absences are not covered by a control program. There



are currently three unrelated programs of progressive discipline -- missout, AWOP (both noted above) and sick leave. The sick leave program alone is directed towards chronically absent drivers. Its provisions incorporate instances of absence, but not the number of days absent. Three types of improvement could significantly strengthen the progressive disciplinary program: 1) include duration of absences; 2) broaden the definition of absences; and 3) conduct the performance review on a 12-month floating timetable rather than the current six-month timetable (thereby paralleling the AWOP program).

- o Require Operators to Provide a Medical Verification of Illness Release After Long Sick Leave -- Currently, an operator is required to submit a doctor's report as a claim for sick pay. This requirement should be expanded for all sick leave of five or more days in duration, to specify the type and cause of illness and its impact on the driver's ability to work. Failure to submit a valid report should invoke disciplinary action.
  
- o Clarify Responsibility and Procedures for Monitoring Long-Term Absences -- RTD at present has two programs for monitoring operators on long-term absences (i.e., in excess of five days). The visiting/telephoning supervisor program and the visiting nurse program, while helpful, have limited resources and no formal guidelines for direct action. It is suggested that RTD formally establish employee monitoring guidelines, and provide the resources to carry them out.

5. Recommended Actions on Absence Reporting and Costing

RTD's ability to effectively monitor absences and act on occurrences is expected to be enhanced by the capabilities of the Human Resources Management Information System (HRMIS), expected to be fully operational for drivers in the coming year. It is important to note that other organizations have experienced attendance improvements as a result of better information and faster management response to absences.

For purposes of clarity and consistency, it is recommended that RTD report driver absence rates in terms of average days absent per driver per year. This will help eliminate confusion surrounding the current reporting of percentage absent.

The study also prepared a recommended approach for absence cost monitoring. It is recommended that RTD monitor driver absence costs on a monthly basis, and establish a monthly report (commencing in October, 1986) containing both absence rates and costs. The report should be used to monitor the relative impact of attendance improvement programs, thus allowing management to fine-tune the programs. A quarterly report on driver absence rates should be provided to LACTC -- noting the attendance improvement actions taken over the fiscal year, as well as highlighting absence rates and costs over the period. The first such report to LACTC should cover the period ending December 31, 1986.

In addition, it is recommended that, within the next six months, RTD:

- o Develop a profile of employees' sick pay accruals (i.e., the number of days accrued in operators' sick bank).

- o Establish a policy regarding absence performance criteria for converting part-time operators to full-time operators.
- o Evaluate the relative benefits of accruing sick leave on a monthly basis, based on 16, 17 and 18 worked days per month, for the purposes of earning sick pay. Identify the corresponding cost savings.
- o Formalize a policy for screening job applicants on the basis of their prior attendance records.
- o Outline a policy and develop a budget and responsibilities for the home visit program.

It is anticipated that the performance auditor together with LACTC will review the progress made in implementing these recommendations, and their affect on operator absenteeism (including cost savings) six months after the conclusion of the FY86 audit (i.e., in March/April 1987).

B. EQUIPMENT MAINTENANCE EMPLOYEE ABSENTEEISM

Equipment maintenance contract employee absences have remained consistently high for the past six years. Unscheduled absenteeism was estimated to cost SCR TD \$5.3 million in FY86. The objective of the study was to better define the characteristics of maintenance absences, analyze management influence over the situation and suggest for RTD's consideration supporting programs to reduce the absence rate and costs. Toward this end, this document focuses on maintenance absence characteristics, contract work rules and programs, maintenance employee absence program survey, suggested approach to absence control, and reporting and costing of absences.

1. Maintenance Absence Characteristics

Equipment maintenance employee absence rates have grown 15 percent between FY80 and FY86 -- from 20 days per employee per year to almost 23 days per employee per year.

Current maintenance employee absence data (i.e., covering the period May 1985 through April 1986) was provided by the RTD's Equipment Maintenance Department - Vehicle Management System (VMS). An analysis of this data resulted in several key findings:

- o Service attendants lead the Maintenance Department in terms of absence rate at 30 days per service attendant per year, followed by BRAC employees at 22 days and mechanics at 20 days per employee per year. Non-contract staff averaged only 9 days of unscheduled absence per employee per year.
- o Absenteeism is concentrated in a small portion of the maintenance workforce, and is distributed across all divisions. Fully sixty percent of the workforce averaged less than 12 unscheduled days of absence per employee per year, with seven percent of the employees having perfect attendance. For the purposes of this study, employees with 40 or more days of unscheduled absence were defined as chronically absent. Employees who fell into this category include 11 percent of mechanics, 22 percent of service attendants, and 20 percent of BRAC employees.
- o Sick leave is the largest single category of absence, accounting for more than 70 percent of total days lost.
- o The most common incidence of absence is a sick leave of five days in duration, accounting for fully one-quarter of all days absent. Only one percent of total

unscheduled absence days lost occur in incidents exceeding five days in duration.

- o Maintenance absences are seasonal in nature, but have no significant statistical relationship to scheduled leave.

2. Contract, Work Rules, Programs

The maintenance employees have some labor agreement provisions which relate to absence controls -- albeit for the most part absence control programs are not included in the union contracts. The two agreements reviewed in the report are between the RTD and the Amalgamated Transportation Union (ATU), which covers service attendants and mechanics, and with the Brotherhood of Railway, Airline and Steamship Clerks, Freight Handlers, Express and Station employees (BRAC), representing clerical and support staff, both effective on April 1, 1985.

The primary contract provisions impacting attendance include sick leave accumulation, sick pay, vacation accumulation, doctor's release and overtime. No attendance requirement or disciplinary program is included in either labor agreement. Beyond the labor contract, management has a number of attendance programs including an attendance policy complete with progressive discipline; an employee incentive policy with monthly, quarterly and annual components; and visiting nurse, light duty/early return to work, and employee assistance programs. The absence control program is relatively complete, but given the absence profile described earlier some improvements are appropriate. RTD is at present working on revising its disciplinary program in the equipment maintenance employee area.

3. Maintenance Employee Absence Program Survey

As was done in the review of driver absence controls, a transit operator survey was conducted to identify programs which might have applicability at RTD. The survey revealed a wide variety of approaches to absence control, and indicated some primary program differences from those in place at RTD. The most significant of these is resident in the progressive disciplinary programs, where most operators evaluated maintenance employee absences over a floating twelve-month period with a simpler progression of discipline based on the number of instances occurred, and total days lost. Also, the number of absences allowed in the RTD program exceeds that of other operators reviewed.

Nearly all the operators reviewed have a requirement that management may request a physician's certificate upon an employee's return to work after five or more days of sick leave -- similar to the terms of both the BRAC and ATU agreements with RTD. A primary difference is that the other operators require a physician's certificate to verify the nature of the illness and/or injury, and that absence from work is recommended (RTD requires the certificate to indicate that the employee is well and can return to work).

All the survey respondents have a program under which prolonged or very frequent absences result in a reduction of another benefit. RTD is unique in reducing vacation time if a certain level of absences is exceeded. For all other respondents, absences impact sick leave benefits. Typically, an employee forfeits a proportion of their accumulated sick leave benefit for absences of a month or more. Other operators require a minimum number of days in a month to be worked before sick leave benefits are accrued.

4. Suggested Approach to Absence Control

As recognized by RTD in its current program of absence control, there are three different target groups of employees to address in attempts to reduce absences. These include employees with good to excellent attendance (almost 40 percent of maintenance employees), employees with marginal attendance (about 45 percent of the maintenance employees), and employees with poor attendance (about 15 percent of maintenance employees). While RTD does have programs targeted towards each of these groups, Price Waterhouse suggests that the District consider strengthening the current programs and expanding them to achieve higher cost savings results.

Specifically, Price Waterhouse recommends eleven program improvements for RTD's consideration. Exhibit i-3 summarizes each program in terms of content, whether or not a contract change is required, estimated savings and cost, and implementation schedule. Implementation of just four of these programs is expected to yield \$1.5 million in net savings. These programs are briefly described below. The first three apply to employees with excellent attendance records, the next five to those with marginal attendance, and the final three to employees with poor attendance records, as discussed below:

- o Expand Equipment Maintenance Employee Recognition Program -- There are currently two distinct elements to this program, an annual award program and a monthly award program. These programs benefit those with perfect or near perfect attendance over a specified period (i.e, annually, quarterly and monthly). These programs have only recently been established -- the first quarterly awards were distributed in July 1986. Awards include entry in a lottery for prizes, and the chance at a trip to Hawaii. The program is consistent and complete. Better communication of individual attendance could help promote perfect performance.

## SUMMARY OF MAINTENANCE ABSENCE REDUCTION SUGGESTIONS

TARGET GROUP	SUGGESTED IMPROVEMENT	CONTRACT CHANGE REQUIRED	POTENTIAL SAVINGS PER ANNUM	ADDITIONAL COST	NET SAVINGS	IMPLEMENTATION SCHEDULE
A. Excellent Attendance	1) Expand Equipment Maintenance Recognition Program (ATU and BRAC)	No	\$170,000 and some reduction already accruing	\$35,000	\$135,000	January 1987
	2) Modify the Buy-Back of Accrued Sick Pay Provision (ATU)	Yes	Unknown	Unknown Minimum pay-off is \$2 to \$1	Unknown	Late FY88
	3) Change Employee Payment Schedule (ATU and BRAC)	No	Unknown	Unknown	Unknown	March 1987
B. Marginal Attendance	1) Modify Sick Leave Accrual Policy (ATU and BRAC)	Yes	Unknown	None	Unknown	Late FY 1988
	2) Modify Sick Pay Provision (BRAC)	Yes	\$103,000 (for BRAC)	None	\$103,000 (for BRAC)	Late FY 1988
	3) Limit Overtime Pay to Employees working a Full Week (ATU and BRAC)	Yes	\$200,000	None	\$200,000	Late FY 1988
	4) Formalize Attendance Record as a Criteria for Promotions (ATU and BRAC)	No	Unknown	None	Unknown	January 1987
	5) Formalize Screening of Job Applicants for Attendance at Prior Workplace (ATU and BRAC)	No	Unknown	None	Unknown	January 1987
C. Poor Attendance	1) Modify Progressive Discipline Schedule for Excessive Absenteeism (ATU and BRAC)	No	\$1.1 million	None	\$1.1 million	Winter 1987
	2) Require Maintenance Employees to Provide a Doctor's verification when Returning to Duty (ATU and BRAC)	Yes	Unknown	None (or cost of exam)	Unknown	Late FY 1988
	3) Clarify Responsibilities and Procedures for Monitoring Maintenance Employees on Four and Five Day Absences (ATU and BRAC)	No	Unknown	Unknown	Unknown	June 1987
Total			\$1,573,000	\$ 35,000	\$1,538,000	



- o Modify the Buy-Back of Accrued Sick Pay Provision -- Each of the two maintenance employee labor agreements (with the ATU and BRAC) has a separate provision for buy-back of accrued sick pay. ATU employees are allowed to accumulate a maximum of 212 days sick pay over their employment period, and cash-in the total accrued amount upon retirement. If the employee leaves the RTD before retirement, all of his/her sick leave is lost. It appears that little benefit is gained by saving accrued sick leave until retirement. A suggested incentive to avoid sick leave is to provide an annual benefit for unused sick days, by allowing the employee to sell some sick pay accruals back to the RTD at a discounted rate.

BRAC employees can accrue up to 20 days of paid sick leave per year after seven years of service. At retirement, an employee can cash-in unused sick leave at 75 percent of face value. In addition, employees can cash in (at 75 percent of face value) sick leave exceeding 80 hours once a year. The BRAC buy-back provision benefits marginal attenders as well as excellent and good attenders. As the program is not currently targeted toward the best performers, it is suggested that RTD consider tightening the buy back provisions by increasing the minimum cash-in eligibility from 80 hours to 168 hours, and reducing the accrual allowance (i.e., the average employee only uses 15 sick days per year but can earn up to 20 days).

- o Change Employee Payment Schedule -- Paychecks for maintenance employees are currently available during the day on payday (i.e., before the swing shift starts). RTD management indicates that some employees pick up their checks and do not show up for work when scheduled. Consequently, RTD believes that absences

tend to be higher on payday. RTD should investigate the extent of this problem, and -- if significant -- consider either paying employees only at the end of their shift, or moving payday from Friday to Monday or Tuesday.

- o Modify Sick Leave Accrual Policy -- Currently, all maintenance employees are provided a full year's sick leave bank on their anniversary date. This policy may encourage employees to utilize sick leave for discretionary purposes, or to consume a year's allotment of sick pay while only working a partial year. A monthly accrual of sick leave, based on the number of days worked in a month, would reduce the tendency to use a sick leave bank for any but necessary purposes.
  
- o Modify Sick Pay Provision -- The ATU contract allows no sick pay on the first day of absence due to illness, while the BRAC contract does. The current BRAC agreement, thus, does not offer a deterrent to taking short-term (i.e., one- or two-day) absences. It is suggested that the BRAC contract be changed to match the ATU contract, with the exception of hospitalization cases (i.e., no sick pay on the first day of absence).

This program could be implemented in conjunction with a reduction in the number of sick hours per person per year allowable for BRAC employees (from 160 hours to 96).

- o Limit Overtime Pay to Employees Working a Full Week -- Currently, ATU and BRAC employees are paid overtime premiums whenever they work on their day off, irrespective of the number of hours actually worked in the week. When overtime work is required, it is assigned to maintenance employees on a rotational basis. Wages

lost through unpaid absence can thus be made up or exceeded by working overtime. It is suggested that RTD limit overtime premiums to maintenance employees who work at least 40 hours during a given week, thereby reducing overtime premiums paid and encouraging fewer short absences.

- o Formalize the Use of Attendance Records as a Criterion for Promotion -- Currently, maintenance employee attendance is considered informally to some extent in promotion decisions to supervisory positions, and for providing pay grade raises. It is suggested that RTD formally include attendance records as a major criterion for promotions and pay grade increases, and communicate this to all employees.
- o Formalize Screening of Job Applicants for Prior Attendance Performance -- As historical attendance is often a good barometer of what can be expected from a new employee, RTD should consider routinely verifying its job applicants' previous attendance records to ensure it is hiring dependable individuals. While this is done to some extent now, RTD should formalize the practice and apply it routinely.
- o Modify Progressive Discipline Schedule for Excessive Absenteeism -- Implemented in January 1986, RTD's attendance policy calls for progressive discipline to begin at six or more instances of unscheduled absences, and/or three or more instances totaling 60 hours within a six-month period. The program appears to have some internal conflicts between management guidelines and the policy statement which should be clarified. The limit for the number of instances appears to be too high to curtail excessive absences, while the number of hours allowed for three instances appears so low as to

punish good and marginal attenders. It is suggested that RTD consider extending the absence accumulation period from a six-month floating period to a 12-month period, reducing the allowable number of incidents in the program and increasing the hours of duration. RTD is discussing a new policy with the two unions and has prepared a draft program which addresses some of the concerns (but still allows too many instances to effectively curtail current absenteeism).

- o Require a Doctor's Certificate When Returning to Duty --  
Currently, an employee is required to submit a doctor's report as a claim for sick pay. An employee must also submit a doctor's release (which indicates that the employee is well) after three days of sick leave (for BRAC employees) and four days (for ATU employees). This requirement should be expanded for all sick leave of four or more days in duration, to specify the type and cause of illness and its impact on the employee's ability to work.
  
- o Clarify Responsibilities and Procedures for Monitoring Maintenance Employees on Four- and Five-Day Absences --  
RTD at present has one program for monitoring maintenance employees on unscheduled absences, the visiting nurse program. While helpful, the program has limited resources and no formal guidelines for direct action. It is suggested that RTD formally establish employee monitoring guidelines; and provide the resources to carry them out.

5. Recommended Actions on Reporting and Costing

The Price Waterhouse report concludes by recommending that RTD routinely monitor absence rates in terms of average absences per employee per year by employee class. This statistic is more

easily communicated and understood than other figures (e.g., percent absent).

It is also recommended that RTD monitor maintenance employee costs on a monthly basis, and establish a monthly report (commencing in October 1986) containing both absence rates and costs. The report should be used to monitor the relative impact of attendance improvement programs, thus allowing management to fine-tune the programs. A quarterly report on employee absence rates should be provided LACTC -- noting the attendance improvement actions taken, and highlighting absence rates and costs over the period. The first report to LACTC should cover the period ending December 31, 1986.

In addition, Price Waterhouse recommends that RTD:

- o Profile sick leave accruals (i.e., total sick bank) separately for mechanics, service attendants and BRAC employees;
- o Profile absences on pay day versus absences on other days of the week over a three month period;
- o Evaluate the relative benefits of accruing sick leave on a monthly basis, based on 16, 17 and 18 worked days per month, for the purposes of earning sick pay accruals. In each of the three cases, determine the equivalent cost savings over the current amount of paid sick days provided;
- o Evaluate the extent to which employees with one or two days of absence per week work overtime;
- o Determine the potential cost savings of the draft absenteeism plan to be implemented in November 1986; and

- o Determine a policy and formulate a budget and responsibilities for a revamped visiting nurse program.

It is anticipated that LACTC together with the performance auditor will review the progress made in implementing these recommendations, and their affect on maintenance employee absenteeism (including cost savings) six months after the conclusion of the FY86 audit (i.e., in March/April 1987).

### C. WORKERS' COMPENSATION

The current workers' compensation program was identified as a matter of concern in the FY86 Phase I Performance Audit Report. During the FY83-85 period, workers' compensation expenditures grew 87 percent, according to RTD's internal system of accounts (i.e., Blue Books). The objective of this task in Phase II was to determine the District's status and performance in the area, and also to identify the factors contributing to high cost growth. To present these findings, the report focuses on location and cost of claims, RTD claims reserving policies, and conclusions, plans and recommendations.

#### 1. Location and Cost of Claims

Costs of workers' compensation result from employees injured while on duty. These costs include direct claims payments, reserves estimated for future payments of current claims, medical costs and other expenses (e.g., legal fees). Injured employees receive payment for time lost from work and may also be entitled to long-term disability payments. RTD is self-insured for these costs up to \$500,000 maximum in any one occurrence.

Measurement of the cost of claims is based on estimating total claims cost at conclusion of the claims. The measurement of cost includes expenses for defending and settling claims in litigation -- such as attorneys fees and additional medical examination

expenses. It does not include all the overhead expenses related to administering the program.

There are at least four factors which have influenced the cost of workers' compensation -- increase in exposure, legal benefit changes, change in the adequacy of total reserves, and adequacy of total reserves for accidents that happened during the current fiscal year. The first two categories (i.e., exposure and legal benefit changes) are not subject to influence by management and account for more than half the rate of growth. Reserving adequacy and claims management are subject to District influence, and together comprise about 33 percent cost growth.

In analyzing the nature of the claims in the eleven months ending May 1986, five types of accidents contributed to 40 percent of claims. The accidents were:

- o Struck by object
- o Traffic collision
- o Slip and fall
- o Stress and strain
- o Miscellaneous driving
- o Assault

## 2. RTD Claims Reserving Policies

The analysis indicates that over the period reviewed (FY79-FY85) RTD has generally underreserved for workers' compensation claims. RTD uses the Incurred Loss Development Approach to estimate reserves. Claims are reported to date by accident fiscal year and projected to ultimate dollar liability. The projection is based on a calculation of the growth in reported claims by year as the group of losses by accident year develops to its ultimate value. Inherent in this approach is making assumptions on the development of the ultimate incurred loss and applying professional judgement. Although this approach is generally

acceptable, estimates are usually underestimated according to historical information provided by the RTD. The District has recently initiated aggressive actions to improve this situation and is planning further improvements throughout FY87.

The claims for RTD have always been processed by an outside contractor. Leonard J. Russo Insurance Services (LJR) has been under contract since October 1, 1984.

An analysis of LJR services was done by a risk management firm for RTD -- and their findings concluded that LJR's quality of processing claims for RTD was inadequate. Reasons were lack of staff relative to case loads, reducing the capability to minimize the cost of each claim. However, on July 1, 1986, the contract with LJR services was renewed for another year with several revisions, expected to improve the effectiveness of services. The revisions include increased staff, another data processing terminal for claims processing, and responsibilities for vocational rehabilitation cases (which in the past was handled by RTD representatives). While not investigated in this review, RTD has verbally indicated that savings are already beginning to accrue.

RTD is currently taking initiatives to reduce the potential for underreserving in the future. RTD estimates that these and other initiatives could reduce workers' compensation costs by \$3 to \$5 million.

### 3. Conclusions and Recommendations

RTD is aggressively pursuing improvements to the workers' compensation program which appear to be responsive to needs and relatively complete, as outlined in Exhibit i-4. RTD is taking a balanced approach to improving safety and improving claims management which serves to decrease public liability insurance costs and workers' compensation claims. RTD's initiatives are strongly supported by the performance auditor.



SOUTHERN CALIFORNIA RAPID TRANSIT DISTRICT  
FY87 PLANS AND INITIATIVES FOR IMPROVEMENTS  
IN THE WORKERS' COMPENSATION MANAGEMENT PROGRAM

CLAIMS ADMINISTRATION

1. Renew contract with Leonard J. Russo (LJR). Under the contract renewed on July 1, 1986:
  - o LJR will identify and process multiple claims from the same case as a "package."
  - o LJR staff dedicated to SCRTD will be increased.
  - o Hearing representatives will handle about one-quarter of incoming litigation cases (potentially saving \$400,000 per year), will represent SCRTD in settlement conferences, will negotiate settlements, will attend rehabilitation conferences, and will file answers to applications.
  - o An additional claims data-processing terminal will be added to SCRTD's location.
  - o LJR will now handle vocational rehabilitation cases.
2. Enforce a 90 percent compliance with the claims administration contract and standards of performance. Investigations will be made to assure benefits are expeditiously provided to injured employees.
3. Step up investigation of claims. One in 20 cases (instead of one in 190 cases) will be investigated.
4. Reduce the percentage of litigated cases from 20 percent to 10.4 percent (the Southern California average).
5. Reduce malingering and fraudulent claims.
6. Identify and gather statistics on unprovoked attacks. To reduce the associated costs, SCRTD will investigate all such assaults and will require that police and witness reports be submitted.
7. Restructure the Special Assistant Program. This program will require injured or ill employees to return to a modified work schedule when physically able.

SOUTHERN CALIFORNIA RAPID TRANSIT DISTRICT  
FY87 PLANS AND INITIATIVES FOR IMPROVEMENTS  
IN THE WORKERS' COMPENSATION MANAGEMENT PROGRAM

SAFETY PROGRAM

1. All non-contract supervisors have increased responsibility in the District-wide objective of loss reduction:
  - o Supervisors develop safety related tasks and standards for controlling and preventing accident losses.
  - o Supervisors investigate all occupational accidents.
  - o The Safe Awards Program now includes supervisors.
2. More instructional sessions are planned:
  - o The Behavioral Modification Accident Program will be expanded.
  - o Operators will undergo Defensive Driver Retraining following the first preventable accident.
  - o An awareness campaign will be implemented concerning driving safety issues.
3. The Personal Protection Equipment Enforcement Campaign will have its first full year impact in FY87.
4. SCRTD can increasingly identify the types of accidents that occur, thus allowing loss prevention strategies to be developed. The types of accident codes currently used will be expanded.
5. Improved physical class standards and specifications for operators will be implemented.

SOUTHERN CALIFORNIA RAPID TRANSIT DISTRICT  
RECOMMENDATIONS FOR IMPROVING THE  
MANAGEMENT OF WORKERS' COMPENSATION

RECOMMENDATIONS

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1. Reconciliation of all claim files with the Claims Information System should be a priority, and should be carried out once a year. RTD will implement this recommendation in FY87.
2. SCRTD should consider using the services of a consulting actuary in valuing their total reserves. RTD plans to implement this recommendation in December 1986.
3. Growth in frequency and severity of claims, as well as growth in workers' compensation costs, should be monitored to determine the degree of success of the loss control program. In addition a report should be prepared regularly, showing frequency and severity by type of injury as well as claim (indemnity, medical, loss expense). Other performance standards that should be considered are:
  - o trend in the litigation ratio;
  - o trend in the subrogation ratio (e.g., ratio of subrogated cases to total cases, ratio of total amounts of subrogation recoveries to total amount of claims);
  - o ratio of number of claims investigated to total number of claims;
  - o average number of days before settlement.

SCRTD plans to implement most of these recommendations.

4. Consider using structured settlements in settling claims. This is under consideration by RTD.
5. Conduct a study to determine whether understaffing and the current overtime policy and requirements of RTD contribute to stress and strain injury. RTD is looking into a similar study.
6. Consider, as part of the claims administrator's function, requiring the administrator to document monthly all changes in their claims reserving policy, operations and judgments in setting up case reserves. Changes in productivity requirements, case workload per examiner, backlogs and personnel should be documented. RTD and its claims administrator have prepared an effective draft report format in September 1986.

Recommendations (outlined in Exhibit i-5) include reconciling all claims filed with the Claims Information System, conducting an actuarial review to help improve reserving estimates, considering a structured settlement process to reduce overall claims expenditures, and implementing a more restrictive return to work policy. This last element has been investigated and implemented by RTD in September 1986.

Finally, a cost monitoring methodology is recommended to track future changes in costs.

In addition, it is recommended that RTD report quarterly to LACTC on the status of workers' compensation claims and the level of reserves. It is expected that LACTC, together with the performance auditor, will review progress towards implementing the recommendations and estimated cost savings in about six months (March or April 1987).

SOUTHERN CALIFORNIA RAPID TRANSIT DISTRICT  
RECOMMENDATIONS FOR IMPROVING THE  
MANAGEMENT OF WORKERS' COMPENSATION

RECOMMENDATIONS

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7. Consider making the return to work requirement under the Special Assistant Program mandatory. RTD investigated the feasibility of this recommendation, and implemented it in September 1986.