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JOHN A. FALK  
DEPUTY CONTROLLER

**TO:** Final Distribution  
**FROM:** Glenn Eckhart, County Controller G.E.  
**DATE:** June 5, 2017  
**RE:** Performance Audit of Year-End Payroll - Executive Summary

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We have completed our performance audit of year-end payroll for the year 2016. Our report number 17-8 is attached. We wish to thank the Office of Human Resources, Office of Information Technology, and Office of Fiscal Affairs for their cooperation during the audit.

County management has continued to make improvements to address the issues raised in our annual year-end payroll report. Other areas, detailed in the attached report, remain open for discussion and continued improvement. Significant issues include:

1. Unemployment compensation payments (over \$77,000 for 2016) may be reduced if part-time hours were spread out over the year;
2. Overtime costs may be reduced if additional coverage would be scheduled for 24/7 operations;
3. The merit pay increase system was again suspended for 2016, however some individual pay increases were approved during 2016. Also, employee performance evaluations were not required in 2016. The County has engaged Gallagher Benefit Services to conduct a job classification and compensation study. Contract deliverables are expected to be presented to the County prior to the preparation of the 2018 budget.

Please feel free to contact me if you have any questions.

**COUNTY OF LEHIGH, PENNSYLVANIA**  
**YEAR-END PAYROLL**

*Performance Audit of Year-End Payroll  
For the Year 2016*

REPORT NO. 17-8

COUNTY OF LEHIGH, PENNSYLVANIA  
YEAR-END PAYROLL

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# COUNTY OF LEHIGH

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COUNTY CONTROLLER

JOHN A. FALK  
DEPUTY CONTROLLER

Thomas Muller, County Executive  
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17 South Seventh Street  
Allentown, PA 18101-2400

We have recently completed a performance audit of year-end payroll for the year 2016. 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.

The scope of our detail audit testing was payroll periods ending in calendar year 2016. In addition to audit procedures performed for each bi-weekly payroll during the year, selected audit procedures are performed at year-end. Our consideration of internal control was limited to audit testing required to meet our audit objectives and would not necessarily identify all deficiencies in internal control that might be significant or material weaknesses.

Our office performed this audit at this time based on our evaluation of county-wide risk assessment. The year-end payroll audit focuses on both external requirements and internal management:

### **External Requirements**

The first objective of the audit was to measure compliance with established federal and state procedures and regulations for various reports including, among others, quarterly payroll tax return filings, W-2 (employee wage) reporting, Form I-9 compliance, unemployment compensation payments, and reporting requirements associated with the Affordable Care Act. ***The results of our testing disclosed no material instances of non-compliance for external reporting in 2016; however, we noted a management issue that we believe should be addressed by county management:***

#### **1. Unemployment Compensation to Active Employees:**

- Unemployment compensation (UC) was paid in the amount of \$77,266.27 to 28 active employees. Please see the subsequent page for a table that breaks down the number of active employees and total UC payments by office.



1. Unemployment Compensation to Active Employees (CONTINUED):

Office	# of Employees	Total Payment
Cedarbrook Nursing: Allentown	10	\$28,782.60
Cedarbrook Nursing: Fountain Hill	9	33,566.59
Sheriff's Office	6	12,042.54
All Others	3	2,874.54
<b>Total</b>	<b>28</b>	<b>\$77,266.27</b>

- A portion of the UC payments could be avoided by limiting hours worked per week and by scheduling hours throughout the year.
- A portion of the above UC payments were paid to active employees who were placed on light duty or left the County for medical purposes.
- One active employee received \$11,432.81 in UC during 2016.

Please refer to the *Schedule of Prior Audit Findings and Recommendations – Finding #2* (UC payments to active employees are down \$13,722.03 from 2015.)

**Internal Management**

The second objective of the audit was to compile reports and evaluate internal management of: employee pay increases, bi-weekly payroll processing including longevity payments, county-wide overtime payments / purchased personnel (at the nursing homes), on-call reporting, compensatory time reporting, distribution of paper check stubs, retirees working over 750 hours, part-time employees exceeding 1,000 hours, short-term sick leave accumulation, vacation day accumulation, inactive employees, annual performance evaluations, and other various payroll deductions. We also performed limited testing in other areas including manual payroll checks issued in 2016, payments made to elected officials, and verifying the validity of employee social security numbers.

Audit criteria and standards included compliance with *County of Lehigh Personnel Policies and Procedures*. We also compared 2016 activity to prior period's performance. Audit standards applied in performing the audit included generally accepted government auditing standards, and *Government Auditing Standards* issued by the Comptroller General of the United States.

We achieved our objectives by comparing the established criteria and standards to actual practice. We believe that the audit evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit included examination of the accounting records, documentation, discussions with the management of the Office of Human Resources, the Office of Fiscal Affairs and other county personnel and such auditing procedures we considered necessary in the circumstances. The key audit results relating to internal management are as follows:

1. Employee Pay Increases

- Auditing software (ACL) was used to test all 23,243 entries made to the KEA personnel system during calendar year 2016.
- The results of the ACL testing determined that there were 128 instances in which a non-union employee's hourly rate increased excluding a cost of living adjustment.
- A sample of 25 of these increases yielded three reclassifications, one promotion to a non-vacant position and one upgraded position. Multiple reclassifications continue to be approved because merit increases for non-represented employees have been suspended for years.

Please refer to the *Schedule of Prior Audit Findings and Recommendations – Finding #1*.

## 2. Overtime Payments

- The County of Lehigh, during the calendar year 2016, experienced an increase in both overtime hours (8.5%) and overtime cost (7%). Overtime hours and overtime cost for the last four years are:

<b>Year:</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Hours:	67,334	69,047	73,902	80,211
Dollars:	\$2,416,792	\$2,466,737	\$2,680,605	\$2,867,947

- The top 5 department-office-bureaus (DOBs) are accumulating overtime as follows:

<b>DOB</b>	<b>2015 O/T Pay</b>	<b>2016 O/T Pay</b>	<b>2015 O/T Hours</b>	<b>2016 O/T Hours</b>
Jail	\$948,050	\$814,902	25,432	21,839
CB – AL – Nursing	748,041	962,217	21,493	27,532
CB – FH – Nursing	293,967	359,238	8,501	10,866
Coroner	116,997	131,314	2,980	3,317
Communication Center	93,674	135,398	2,811	3,923

- Overtime payments have decreased by 14% at the jail.
- Overtime payments have increased at both Cedarbrook locations by a cumulative 26.8%.
- Analysis shows that the top 5 DOBs are, for the most part, locations with 24-hour operations.
  - Reduction of overtime costs may be possible by scheduling sufficient additional coverage where known absences occur (24/7 operations) to minimize the need for overtime.

## 3. Cedarbrook's Purchased Personnel

- Cedarbrook's purchased personnel (predominantly contract nursing) for the calendar year 2016 cost \$583,151. This represents a \$105,324 (22%) increase from 2015.

<b>Year:</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Allentown	\$87,744	\$106,523	\$335,533	\$389,176
Fountain Hill	61,838	85,227	142,294	193,975
<b>Total</b>	<b>\$149,582</b>	<b>\$191,750</b>	<b>\$477,827</b>	<b>\$583,151</b>

- The combined increase of both overtime and purchased personnel at both Cedarbrook locations was \$384,772 for 2016. Discussions with management have led to the conclusion that the increase is due to:
  - An increase in the medical needs of Cedarbrook residents; and
  - Difficulties in retaining employees and filling vacant positions.

## 4. On-call Compensation

- Multiple departments were selected for testing of their on-call process. Audit testing did not reveal any inconsistencies between department policies and on-call compensation.



5. Compensatory Time Accumulation

- Compensatory time balances for 26 employees (comprised of both union and non-union employees) exceeded the limit set forth by management in the Lehigh County Policies and Procedures Manual or the employee's respective union contract if applicable. The cumulative overage of compensatory time for the 26 employees is 1,187 hours.
- Compensatory time could be reduced by mandating employees to use compensatory time accrued prior to using vacation time.

Please refer to the *Schedule of Prior Audit Findings and Recommendations – Finding #5*.

6. Retirees Working Over 750 Hours

- Audit testing did not reveal any instances of a part-time employee exceeding 1,000 hours worked.

7. Part-Time Employees Exceeding 1,000 Hours

- Audit testing revealed 5 new instances of part-time employees exceeding 1,000 hours worked.
- There were 7 prior part-time employees who worked more than 1,000 hours in 2015.

Please refer to the *Schedule of Prior Audit Findings and Recommendations – Finding #3*.

8. Short-Term Sick Leave

- There were 91 employees who used 10 or more days of short-term disability time in 2016; this was a 16.5% decrease when compared to 2015.
- Of these employees, 94% of the sick leave taken was done so in episodes of two days or less. (No doctor's excuse is required until an employee takes three consecutive days off.)
- Using 2016 sick time data, we compiled the number of sick "episodes." We defined an episode as the following:
  - Any full or partial sick day from work as scheduled was defined as an episode;
  - Any consecutive number of sick days was defined as one episode; and
  - Non-consecutive absences were considered separate episodes.

Number of Days per Episode – 2016							
	1 Day or Less	2 Days	3 Days	4 Days	5 Days	6 + Days	Total # of Episodes
Number of Episodes:	1038	230	34	20	19	10	1351
Percentage of Total:	77%	17%	3%	1%	1%	1%	100%

- The Office of Children and Youth Services (OCYS) had the highest number (519) of the above episodes (38%) of sick leave time. While OCYS had the highest number (519) of the above episodes, 2016 marks the second year of continuous improvement. OCYS had 977 sick episodes as reported in the 2014 year-end payroll audit, Report #15-9.

9. Vacation Day Accumulation Testing

- All employees with more than 35 vacation days at year-end were manually adjusted back down to 35 days.

#### 10. Inactive Employees

- There were a total of 18 employees that were active in the personnel system but had not received a paycheck in calendar year 2016. Of these 18 employees, 13 were associated with the Hazardous Materials Unit (Hazmat) – Hazmat employees are kept active to facilitate payroll payments when incidents occur, however, 5 were listed as working for departments other than Hazmat.

#### 11. Performance Evaluations

- Performance evaluations are not being completed annually. A sample of 25 employees were tested for annual performance evaluations; 8 of the 25 employees had received a recent evaluation.

Please refer to the *Schedule of Prior Audit Findings and Recommendations – Finding #1*.

The Controller's Office would like to commend the County Administration on the improvements outlined in the "*Schedule of Prior Audit Findings and Recommendations*". We wish to thank the Office of Human Resources, Office of Information Technology, and Office of Fiscal Affairs for their cooperation during the audit.

This report is intended for the information and use of the Department of Administration and other affected county offices. This restriction is not intended to limit the distribution of this report, which is a matter of public record. If you have any questions, please feel free to contact Zachary Effting, John Falk, or me.



Glenn Eckhart  
County Controller

May 31, 2017  
Allentown, Pennsylvania

Audited by: Zachary Effting and Daniel Aquilino

#### Final Distribution:

Kay Achenbach, Human Services Director  
Board of Commissioners  
Scott Grim, Coroner  
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Timothy Reeves, Fiscal Officer  
The Honorable Edward Reibman, President Judge  
Mary Sabol, Corrections Director  
Joseph Shadid, Cedarbrook Homes Director  
Matthew Sorrentino, County Solicitor  
Kerry Turtzo, Court Administrator



COUNTY OF LEHIGH, PENNSYLVANIA  
2016 YEAR-END PAYROLL AUDIT

*Schedule of Prior Audit Findings and Recommendations*  
(Refer to Audit Report #16-17)

1. Inadequate Performance Appraisal and Employee Compensation Systems

**Condition:** Detailed audit testing has revealed that the County of Lehigh lacks both a defined compensation policy and a comprehensive approach by which to evaluate and track employee performance.

**Recommendation:** The County of Lehigh should adopt and disclose a two-fold process by which to measure employee performance and then compensate those employees that exceed pre-established metrics.

**Auditee Response:**

Employee Pay Increases – Pay adjustments were included in the budget and approved during the budget process.

Reclassifications – A discussion was held regarding reclassifications and the issue has been resolved.

**Current Status:** Performance appraisals are still not required by management and there were an immaterial amount of employee pay increases that were deemed necessary by management. **To rectify the inadequate performance appraisal and employee compensation systems, the County has engaged Gallagher Benefit Services to conduct a job classification and compensation study (RFP-014).**

2. Paying Active Employees Unemployment Compensation (UC)

**Condition:** Unemployment compensation was paid in the amount of \$90,988.30 to 39 active employees. A portion of the UC payments were paid to active employees who were placed on light duty or left the County for medical purposes. However, \$79,033.35 were paid to active, part-time employees.

**Recommendation:** The Administration should continue to influence departments to implement a policy that spreads out part-time hours on a bi-weekly basis to mitigate the financial impact of part-time employees filing for UC. Since Lehigh County is self-insured, there is a direct financial impact associated with allowing active, part-time employees to collect unemployment compensation.

**Auditee Response:** Discussions have taken place with Departments regarding the staffing of part-time employees to equalize hours.

**Current Status:** UC was paid in the amount of \$73,071.73 to active, part-time employees. **Management should continue to influence departments to implement a policy that spreads out part-time hours on a biweekly basis to mitigate the financial impact of part-time employees filing for UC.**

3. Part-time Employees Working More Than 1,000 Hours

**Condition:** There were seven instances in which part-time employees worked more than 1,000 hours during their respective, rolling year of employment.

**Recommendation:** Management should adopt an hour limit that is less than 1,000 hours (i.e. 950 hours) to safeguard against violations of the “County Pension Law.”

**Auditee Response:** Reports and notifications are provided to all Departments regarding the current hours for the employees rolling year.

**Current Status:** There were five new instances in which part-time employees worked more than 1,000 hours during their respective, rolling year of employment in 2016. **Management should adopt a more conservative hour limit to safeguard against these violations.**

4. Inefficiencies Associated with Distributing Paper Check Stubs

**Condition:** The Controller’s Office has completed an analysis of the current process used to distribute paper checks. The results of the analysis has led to the conclusion that the general process is inefficient and leads to lost labor hours.

**Recommendation:** The County of Lehigh should seek alternative methods to distributing check stubs. One viable option would be to transition away from paper check stubs and towards an online option in which employees log in to view an electronic version of their pay stub. Alternatives could be developed to assist the few employees without computer access.

**Auditee Response:** In agreement to moving to a paperless system. This will be included in the proposals to the Unions.

**Current Status:** The County, in connection with its pursuit of a new ERP (enterprise resource planning) system, has purchased a “payroll with employee self-service” module. This module is expected to allow employees to view electronic versions of their paystubs.

5. Excessive Compensatory Time Accumulation

**Condition:** Compensatory time balances for 23 employees (comprised of both union and non-union employees) exceeded the limit set forth by management in the Lehigh County Policies and Procedures Manual or the employee’s respective union contract if applicable. The cumulative overage of compensatory time for the 23 employees is 1,593 hours.

**Recommendation:** We suggest the employees with compensatory balances that exceed their respective limit be required to drawdown compensatory time balances prior to using any other leave time, such as vacation days, reward days, or personal days. The County Administration should set a timeframe to use or lose excess compensatory time accumulation.

**Auditee Response:** A discussion was held with the Departments affected.

**Current Status:** Compensatory time balances for those exceeding their respective limits has decreased to an overage of 1,187. **Management should continue to encourage employees with excessive compensatory time to draw down these balances prior to using other type of leave time.**