



COUNTY OF LEHIGH
OFFICE OF THE CONTROLLER

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GLENN ECKART
COUNTY CONTROLLER

JOHN A. FALK
DEPUTY CONTROLLER

TO: Final Distribution
FROM: Glenn Eckhart, County Controller G.E.
DATE: June 29, 2018
RE: Performance Audit of Year-End Payroll - Executive Summary

We have completed our performance audit of year-end payroll for the year 2017. Our report number 18-16 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. Overtime hours increased 7.4% and overtime payments increased 9.0% in 2017 from 2016.
2. Cedarbrook purchased personnel costs decreased by \$104,533, or 18%, in 2017 from 2016.
3. The merit pay increase system was again suspended for 2017, however some individual pay increases were approved during 2017.
4. Also, employee performance evaluations were not required in 2017. The County has engaged Gallagher Benefit Services to conduct a job classification and compensation study. Contract deliverables have not been received as of this date.
5. Unemployment compensation payments totaled over \$56,000 to active employees in 2017. This may be reduced if part-time hours were spread out over the year;

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 2017*

REPORT NO. 18-16

COUNTY OF LEHIGH, PENNSYLVANIA
YEAR-END PAYROLL

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Edward Hozza, Jr., Director of Administration
Lehigh County Government Center
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Allentown, PA 18101-2400

We have recently completed a performance audit of year-end payroll for the year 2017. 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 2017. 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 internal management and external requirements:

Internal Management

The first 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, 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 2017, 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 2017 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. Overtime Payments

- The County of Lehigh, during the calendar year 2017, experienced an increase in both overtime hours (7.4%) and overtime cost (9%). Overtime hours and overtime cost for the last four years are:

Year	2014	2015	2016	2017
Hours	69,047	73,902	80,211	86,146
Dollars	\$2,466,737	\$2,680,605	\$2,867,947	\$3,125,241

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

DOB	2017 O/T Pay	2016 O/T Pay	% Change In Pay	2017 O/T Hours	2016 O/T Hours	% Change In Hours
CB – AL – Nursing	\$1,063,629	\$962,217	11%	30,279	27,532	10%
Jail	\$807,100	\$814,902	(1%)	21,199	21,839	(3%)
CB – FH – Nursing	\$468,370	\$ 359,238	30%	14,034	10,866	29%
Communication Ctr	\$177,026	\$135,398	31%	5,098	3,923	30%
Coroner	\$149,017	\$ 131,314	13%	3,742	3,317	13%

- 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.

2. Cedarbrook's Purchased Personnel (outside contractors)

- Cedarbrook's purchased personnel (predominantly contract nursing) for the calendar year 2017 cost \$478,618. This represents a \$104,533 (18%) decrease from 2016.

Year:	2014	2015	2016	2017
Allentown	\$106,523	\$335,533	\$389,176	\$261,666
Fountain Hill	\$85,227	\$142,294	\$193,975	\$216,952
Total	\$191,750	\$477,827	\$583,151	\$478,618

- The combined total increase of both overtime and purchased personnel at both Cedarbrook locations was \$106,011 for 2017. Possible explanations include:
 - An increase in the medical needs of Cedarbrook residents; and
 - Difficulties in retaining employees and filling vacant positions.

3. Performance Evaluations

- Performance evaluations are not being completed annually. A sample of 25 employees were tested for annual performance evaluations; 9 of the 25 employees had received a recent evaluation. Many departments do not complete these evaluations because performance evaluations are not required by management and because there is no incentive for them to be completed (i.e. merit increases, step increases, etc).

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

4. Employee Pay Increases

- Auditing software, Audit Control Language (ACL), was used to test all 27,303 entries made to the KEA personnel system during calendar year 2017.
- The results of the ACL testing determined that there were instances in which a non-union employee's hourly rate increased (excluding cost of living adjustments and new hire rate inputs). The table below breaks out some of the stated reasons used for the pay increases to occur, as merit increases for most non-represented employees have been suspended for years.

Please refer to the *Schedule of Audit Findings and Recommendations – Finding #2*.

Merit Increase	Promotion	Reclassified	Step Correction
11	37	2	13

5. Short-Term Sick Leave

- There were 108 employees who used 10 or more days of short-term disability time in 2017; this was a 16% increase when compared to 2016.
- Of these employees, 93% 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 2017 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.
- The Office of Children and Youth Services (OCYS) had the highest number (729) of the above episodes (48%) of sick leave time.

Number of Days per Episode – 2017							
	1 Day or Less	2 Days	3 Days	4 Days	5 Days	6 + Days	Total # of Episodes
Number of Episodes:	1,187	239	64	13	5	9	1,517
Percentage of Total:	78%	15%	4%	1%	1%	1%	100%

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

6. 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.

7. Part-Time Employees Exceeding 1,000 Hours

- Audit testing revealed 6 instances of part-time employees exceeding 1,000 hours worked.
- There were 5 part-time employees who worked more than 1,000 hours in 2016, but one of these employees was the same in 2017.
- Since employees who work over 1,000 hours generally are required to participate in the county pension plan, this issue will be reported to the Pension Board and to the Retirement Fund Managers (The Hay Group).

Please refer to the *Schedule of Audit Findings and Recommendations – Finding #4*.

8. Compensatory Time Accumulation

- Compensatory time balances for 25 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 25 employees is 1,128 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 Audit Findings and Recommendations – Finding #5*.

9. Vacation Day Accumulation Testing

- All employees with more than 35 vacation days at year-end were manually adjusted back down to 35 days, except for six employees at Cedarbrook. These employees were adjusted back down after the issue had been brought to management's attention. Two of these employees were also listed in the previous audit for not having their balances adjusted.

10. Retirees Working Over 750 Hours

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

11. Inactive Employees

- There were a total of 12 employees that were active in the personnel system but had not received a paycheck in calendar year 2017. Of these 12 employees, 11 were associated with the Hazardous Materials Unit (Hazmat) – Hazmat employees are kept active to facilitate payroll payments when incidents occur, however, one was listed as working for the prison.

External Requirements

The objective of the external requirement portion 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 2017; however, we noted a management issue that we believe should be addressed by county management:*

1. Unemployment Compensation to Active Employees:

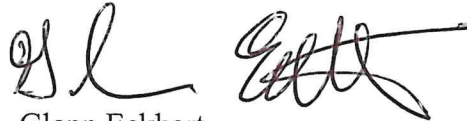
- Unemployment compensation (UC) was paid in the amount of \$56,037.07 to 27 active employees. UC payments are down \$21,229.20 from 2016. Please see the table below that breaks down the number of active employees and total UC payments by office.
- UC payments could be avoided by limiting hours worked per week and by scheduling hours throughout the year.

- UC payments were paid to active employees who were placed on light duty or left the County for medical purposes.
- One active employee received \$9,414.00 in UC during 2017.

Office	# of Employees	Total Payment
Cedarbrook Nursing: Allentown	10	\$20,352.43
Cedarbrook Nursing: Fountain Hill	9	\$25,331.88
Sheriff's Office	4	\$7,888.64
All Others	4	\$2,464.12
Total	27	\$56,037.07

The Controller's Office would like to commend the County Administration on the improvements outlined in the "*Schedule of 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

DATE
Allentown, Pennsylvania

Audited by: Daniel Aquilino, Bethany Sebesta and Zachary Effting

Final Distribution:

Kay Achenbach, Human Services Director
Phillips Armstrong, County Executive
Board of Commissioners
Scott Grim, Coroner
Rosemary Gooch, Systems Manager, Information Technology
Joseph Hanna, Sheriff
Edward Hozza, Jr., Director of Administration
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Timothy Reeves, Fiscal Officer
The Honorable Edward Reibman, President Judge
Mary Sabol, Corrections Director
Joseph Shadid, Cedarbrook Homes Director
Kerry Turtzo, Court Administrator

COUNTY OF LEHIGH, PENNSYLVANIA
2017 YEAR-END PAYROLL AUDIT

Schedule of Audit Findings and Recommendations

1. Inadequate Employee Compensation System

Condition: Detailed audit testing has revealed that the County of Lehigh lacks a defined compensation policy. Merit increases have been suspended again for 2017, marking the 8th year in a row (2010 budget). While the County has engaged Gallagher Benefit Services (RFP 17-014) to conduct a job classification and compensation study, the results have still not been released.

Recommendation: The County of Lehigh should adopt a process to compensate employees that exceed pre-established metrics. Failure to maintain an adequate compensation system results in reduced productivity and poor employee morale. This would also allow the County to retain employees, rather than losing them to other markets or employers.

2. Inadequate Performance Appraisal System

Condition: Detailed audit testing has revealed that the County of Lehigh lacks a comprehensive policy to evaluate and track employee performance. Since the evaluations are no longer required to support merit or step increases, many department heads do not do employee evaluations.

Recommendation: The County of Lehigh should adopt a process to measure employee performance. Periodic employee evaluations should be linked to employee compensation.

3. Sick Time Abuse

Condition: Many of the 108 employees who took ten or more sick days in 2017 avoid needing a doctor's excuse by limiting their absence to two or less consecutive days.

Recommendation: Change the policy to count individual episodes as the basis for requiring a doctor's excuse.

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

Condition: There were six instances in which part-time employees worked more than 1,000 hours during their respective, rolling year of employment. One employee was included on the list last year.

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." Any employee who violates their limit will be subject to reporting to the County Pension Board, as well as the Retirement Fund Managers (The Hay Group).

5. Excessive Compensatory Time Accumulation

Condition: Compensatory time balances for 25 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 25 employees is 1,127 hours.

The following table shows a breakdown of the number of employees in each department that have exceeded their allotted maximum balances.

Office	Number of Employees
District Attorney	9
Coroner	3
Sheriff	7
Human Resources	1
Communications Center	2
Adult Probation	2
Magisterial District Courts	1
Total	25

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.