



COUNTY OF LEHIGH

OFFICE OF THE CONTROLLER

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GLENN ECKHART
COUNTY CONTROLLER

THOMAS GROGAN
DEPUTY CONTROLLER

TO: Final Distribution

FROM: Glenn Eckhart, County Controller *G.E.*

DATE: July 15, 2019

RE: Performance Audit of Year-End Payroll - Executive Summary

We have completed our performance audit of year-end payroll for the year 2018. Our report number 19-12 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. Countywide overtime hours and payments increased 14% and 17% from 2017, respectively.
2. Cedarbrook purchased personnel costs increased by \$195,967, or 41% from 2017.
3. Regular payroll payments only increased by 1% from 2017. During 2018, higher-wage earners retired and were replaced by employees starting at a lower step of the pay scale. Future increases in wages will occur over time as the employee progress's upward through the wage scale.
4. There were 25 employees in the Corrections Department that had in excess of \$10,000 in overtime payments during 2018, a 178% increase from 2017. Annual pension payouts are partly based on the average compensation received for the 3 highest years of service. Large overtime payments will increase both county pension obligations and employee pension payouts.
5. Union contract negotiations should focus on limiting the amount of overtime any one employee is allowed to accrue each year.
6. The merit pay increase system was again suspended for 2018, however, step increases were reintroduced and added into the budget for 2019.
7. Also, employee performance evaluations were not required in 2018. In 2017, the County engaged Gallagher Benefit Services to conduct a job classification and compensation study. Contract deliverables and payments resumed in 2019.
8. Unemployment compensation payments totaled over \$68,282 to active employees in 2018. 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 2018*

AUDIT REPORT NO. 19-12

COUNTY OF LEHIGH, PENNSYLVANIA
YEAR-END PAYROLL

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

We have recently completed a performance audit of year-end payroll for the year 2018. 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 2018. 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 2018, 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 2018 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 and Regular Wage Payments

- The County of Lehigh, during the calendar year 2018, experienced an increase in overtime hours (14%) and costs (17%), but only a (1%) increase in regular payroll wages. Overtime hours, overtime cost, and regular payroll costs for the last four years are:

Year	2015	2016	2017	2018
Overtime Hours	73,902	80,211	86,146	98,623
Overtime Dollars	\$2,680,605	\$2,867,947	\$3,125,241	\$3,652,188
Regular Payroll Dollars	\$105,220,739	\$106,935,480	\$110,005,893	\$111,240,229

- The top 5 department-office-bureaus (DOBs) overtime dollars and hours are as follows:

DOB	2017 O/T Pay	2018 O/T Pay	% Change In Pay	2017 O/T Hours	2018 O/T Hours	% Change In Hours
CB – AL – Nursing	\$1,063,629	\$1,181,841	11%	30,279	33,562	11%
Jail	\$807,100	\$1,137,273	41%	21,199	29,074	37%
CB – FH – Nursing	\$468,370	\$470,800	1%	14,034	14,150	1%
Communication Ctr.	\$177,026	\$224,512	27%	5,098	6,045	19%
Coroner	\$149,017	\$141,006	<5>%	3,742	3,467	<7>%

- The same 5 department-office-bureaus (DOBs) regular payroll dollars are as follows:

DOB	* 2017 Regular Pay	* 2018 Regular Pay	% Change In Pay	* 2017 Regular Hours	* 2018 Regular Hours	% Change In Hours
CB – AL – Nursing	\$20,000,528	\$20,400,095	2%	896,403	901,128	1%
Jail	\$13,225,748	\$13,108,339	<1>%	514,958	494,613	<4>%
CB – FH – Nursing	\$8,127,494	\$8,347,531	3%	365,704	368,428	1%
Communication Ctr.	\$1,737,993	\$2,076,974	20%	71,978	82,275	14%
Coroner	\$954,840	\$993,611	4%	34,503	35,415	3%

- The top 5 department-office-bureaus (DOBs) combined regular and overtime payroll dollars are as follows:

DOB	* 2017 Combined Pay	* 2018 Combined Pay	% Change In Pay	*2017 Combined Hours	* 2018 Combined Hours	% Change In Hours
CB – AL – Nursing	\$21,064,157	\$21,581,936	2%	926,681	934,690	1%
Jail	\$14,032,848	\$14,245,612	2%	536,157	523,687	<2>%
CB – FH – Nursing	\$8,595,864	\$8,818,330	3%	379,738	382,578	1%
Communication Ctr.	\$1,915,019	\$2,301,486	20%	77,076	88,320	15%
Coroner	\$1,103,857	\$1,134,618	3%	38,246	38,881	2%

- 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.
- Analysis shows that the highest overtime earning employee in 2018, within the Corrections Department, received \$59,835 and 1,326 in overtime payments and hours, respectively. The highest overtime earning employee in 2017, within the Corrections Department, received \$22,780 and 450 in overtime payments and hours, respectively.

** Corrections Management noted that employee overtime is reviewed, but is in part based on seniority and governed by collective bargaining agreements. Furthermore, the hiring of corrections officers was difficult in 2017 and 2018, due to an increasingly competitive employment market, compared to prior years. Management also took measures to close a housing unit, due to decreasing inmate populations, but were constrained by minimum staffing requirements and unforeseen operational needs, such as inmate hospitalizations. **

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

2. Cedarbrook's Purchased Personnel (outside contractors)

- Cedarbrook's purchased personnel (predominantly contract nursing) for the calendar year 2018 cost \$674,585. This represents a \$195,967 (41%) increase from 2017.

Year:	2015	2016	2017	2018
Allentown	\$335,533	\$389,176	\$261,666	\$417,022
Fountain Hill	\$142,294	\$193,975	\$216,952	\$257,563
Total	\$477,827	\$583,151	\$478,618	\$674,585

- The combined total increase of both overtime and purchased personnel at both Cedarbrook locations was \$316,609 for 2018. Possible explanations include:
 - An increase in the medical needs of Cedarbrook residents; and
 - Difficulties in retaining employees and filling vacant positions.

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

3. Part-Time Employees Exceeding 1,000 Hours

- Audit testing revealed 6 instances of part-time employees exceeding 1,000 hours worked; 2 of whom were the same in 2017.
- Employees who work over 1,000 hours are required to participate in the county pension plan, according to The Lehigh County Employee's Retirement System. This issue will be reported to the Pension Board and to the Retirement Fund Actuaries (Korn Ferry).

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

4. Employee Pay Increases

- Auditing software, Audit Control Language (ACL), was used to test all 29,550 entries made to the KEA personnel system during calendar year 2018.
- In years past, increases were only given to employees that were governed by a Collective Bargaining Agreement, leaving non-union employees to receive a small cost of living increase. However, as a part of the 2019 budget, step increases were approved for the first time in nearly 10 years. Therefore, nearly all employees received a step increase in the first pay of 2019. Satisfactory performance reviews were not required for these increases.

5. Short-Term Sick Leave

- There were 96 employees who used 10 or more days of short-term disability time in 2018; this was an 10% decrease when compared to 2017.
- Of these employees, 94% of the sick leave taken was done so in episodes of 2 days or fewer. No doctor's excuse is required until an employee takes three consecutive days off.
- Using 2018 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 (579) of the above episodes (42%) of sick leave time.

Number of Days per Episode – 2018							
	1 Day or Less	2 Days	3 Days	4 Days	5 Days	6 + Days	Total # of Episodes
Number of Episodes:	1,071	219	47	22	9	11	1,379
Percentage of Total:	78%	16%	3%	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. Compensatory Time Accumulation

- 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 938 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 #4*.

8. Performance Evaluations

- Performance evaluations are not being completed annually. A sample of 27 employees were tested for annual performance evaluations; 10 of the 27 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 #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 3 employees who retired before the end of the year and 1 employee who used the time before the end of the year.

10. Retirees Working Part-Time Over 750 Hours

- Audit testing revealed all retired part-time employees received written authorization to work greater than 750 hours, but did not exceed the 1,000 hour limit set by management.

11. Inactive Employees

- There were a total of 17 employees that were active in the personnel system but had not received a paycheck in calendar year 2018. Of these 17 employees, 12 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.

12. Employee Deductions

- On June 27, 2018, in the case of *Janus vs. A.F.S.C.M.E. Council 31*, the United States Supreme Court ruled that the required collection of fair share fees by non-union employees to the union is unconstitutional. At which time, employees who wished to stop paying their fair share dues could opt-out of future payments. Lehigh County has complied with this action.

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 2018; however, we noted a management issue that we believe should be addressed by county management:

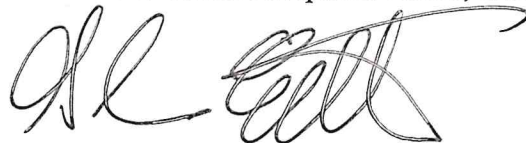
1. Unemployment Compensation to Active Employees:

- Unemployment compensation (UC) was paid in the amount of \$68,282 to 23 active employees. UC payments are up \$12,245 from 2017, however, the number of active employees receiving UC is down 4 employees from 2017. Please see the table below that breaks down the number of active employees and total UC payments by office and year.
- UC payments could be avoided by limiting the hours worked, per week, of part-time employees 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 \$10,393.00 in unemployment compensation during 2018. No exceptions noted.

Office	# of Employees in 2017	# of Employees in 2018	Total Payment in 2017	Total Payment in 2018
Cedarbrook Nursing: Allentown	10	10	\$20,352	\$29,602
Cedarbrook Nursing: Fountain Hill	9	7	\$25,332	\$17,524
All Others	8	6	\$10,353	\$21,156
Total	27	23	\$56,037	\$68,282

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 Stephen Berndt, Thomas Grogan, or me.



GLENN ECKHART
County Controller

June 26, 2019
Allentown, Pennsylvania

Audited by: Daniel Aquilino, Bethany DiMatteo and Thomas Grogan

Final Distribution:

Kay Achenbach, Human Services Director
Phillips Armstrong, County Executive
Board of Commissioners
Jason Cumello, Cedarbrook Homes Director
Janine Donate, Corrections Director
Rosemary Gooch, Systems Manager, IT
Joseph Hanna, Sheriff
Edward Hozza, Jr., Director of Administration
M. Judith Johnston, Human Resources Director
Frank Kane, Community/Economic Development
Director

Robert Kennedy, Chief Information Officer, IT
James Martin, District Attorney
Eric Minnich, Coroner
Richard Molchany, General Services Director
Sarah Murray, County Solicitor
Andrea Naugle, Clerk of Judicial Records
Timothy Reeves, Fiscal Officer
The Honorable Edward Reibman, President Judge
Kerry Turtzo, Court Administrator

COUNTY OF LEHIGH, PENNSYLVANIA
2018 YEAR-END PAYROLL AUDIT

Schedule of Audit Findings and Recommendations

1. Overtime and Purchased Personnel

1. **Condition:** Countywide overtime hours and payments increased by 12,477 (14%) and \$526,947 (17%) from 2017, respectively. Additionally, there were 25 employees in the Corrections Department that had in excess of \$10,000 in overtime payments during 2018, a 178% increase from 2017. Large overtime payments will increase county pension obligations for employees who accumulate large overtime balances. Furthermore, purchased personnel expenses at Cedarbrook increased \$195,967 (41%) from 2017. Conversely though, regular payroll payments, excluding overtime, only increased by 1.1%, or \$1,234,336 from 2017.

Recommendation: Management should continue to analyze the cost/benefit of paying overtime and/or purchased personnel expenses versus hiring additional employees at locations with 24 hour operations. Consideration needs to be made during contract negotiations in regards to limiting the amount of overtime an employee is allowed to accrue, in any one period.

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

Condition: There were 6 instances in which part-time employees worked more than 1,000 hours during their respective, rolling year of employment. Moreover, 2 employees were 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, according to The Lehigh County Employee's Retirement System, will be subject to reporting to the County Pension Board, as well as the Retirement Fund Actuaries (Korn Ferry).

3. Sick Time Abuse

Condition: Many of the 96 employees who took 10 or more sick days in 2018 avoid needing a doctor's excuse by limiting their absence to two or fewer consecutive days.

Recommendation: Consideration should be given to provide employees with paid-time-off (PTO) balances, as opposed to defined sick time balances. Management should continue to reduce the number of sick days allotted to both non-union and union personnel.

4. Compensatory Time Accumulation

Condition: Compensatory time balances for 23 employees (comprised of both union and non-union employees) exceeded the limits set forth by management.

Recommendation: Consideration should be given to allow for the advanced payment of accumulated compensatory balances which exceed respective limits set forth by the Lehigh County Policies and Procedures Manual or the employee's respective union contract.

5. 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.



COUNTY OF LEHIGH
Department of Administration

Edward D. Hozza, Jr.
Director of Administration

TO: Glenn Ekhart, Lehigh County Controller
Thomas Grogan, Lehigh County Deputy Controller
Steven Berndt, Lehigh County Assistant Deputy Controller

FROM: Edward D. Hozza Jr. Lehigh County Director of Administration

DATE: June 26, 2019

RE: 2018 Performance Audit of Year-End Payroll

Finding # 1 Excessive overtime -Once again 2018 proved to be a challenging year for recruitment in Corrections and Cedarbrook. There have been successful recruitment efforts at both facilities to fill vacant positions. Costs were managed within the respective budgets.

Finding # 2 Part-time employees exceeding 1,000-hour yearly limit- Notification has been provided to the respective Departments to monitor the 1000-hour directive. HR will continue to notify when approaching the 1000 hours. In addition, this information is included in each payroll report.

Finding # 3 Sick Time Abuse- Sick leave is monitored in each of the Departments. Any changes to the policy will require negotiations with each of the bargaining units.

Finding # 4 Compensatory Time- Discussion have taken place with the all the areas affected and the Department Heads and/or Row Officers have indicated they will monitor closely and will work to bring down the numbers.

Finding # 5 Performance Evaluations- The Human Resource Department will be evaluating our current Performance Evaluation protocol and then decide upon the future direction of Performance Evaluations in Lehigh County.

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