



COUNTY OF LEHIGH
OFFICE OF THE CONTROLLER

LEHIGH COUNTY GOVERNMENT CENTER
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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 17, 2014
RE: Performance Audit of Year-End Payroll - Executive Summary

We have completed our performance audit of year-end payroll for the year 2013. Our report number 14-9 is attached.

County management has continued to make improvements to address the issues raised in our annual year-end payroll report. Many of the areas included in our audit have improved significantly. Other areas remain open for discussion and continued improvement:

- 2013 overtime amounts and hours decreased by \$365,947 (13%) and 12,496 (16%), respectively.
- Cedarbrook – Nursing overtime decreased from \$985,496 in 2012, to \$674,126 in 2013, which represents a \$311,371 (32%) decrease overall. In addition, total Purchased Personnel at Cedarbrook locations decreased by \$282,331 (65%) for 2013, when compared to 2012. Overtime and Purchased Personnel decreases may be attributed to declining occupancy at both Cedarbrook locations.
- There was an 18% decrease in employees using ten or more days of short-term disability when compared to 2012. County management has made significant efforts to address sick time abuse by instituting a maximum annual sick time accrual of six sick days, in addition to, adding specific language to union contracts addressing sick time abuse. We continue to suggest a short-term sick time policy that requires more personal responsibility.
- A number of law enforcement personnel (County Detectives) have compensatory time balances in excess of 80 hours. We recommend management require the drawdown of compensatory balances prior to any other benefit time being used.
- The county time reporting system requires system improvements to properly monitor inactive employees.
- Human Resources management should more closely monitor the completion of annual employee performance evaluations.
- On-call compensation policy should be consistently applied county-wide.

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 2013*

REPORT NO. 14-9

COUNTY OF LEHIGH, PENNSYLVANIA
YEAR-END PAYROLL

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GLENN ECKHART
COUNTY CONTROLLER

JOHN A. FALK
DEPUTY CONTROLLER

Daniel K. McCarthy, 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 2013. 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 2013. 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 effort focuses on both external and internal reporting:

External Requirements

The first objective of the audit was to measure compliance with established federal reporting procedures/regulations for:

- Quarterly payroll tax return filings
- W-4 (federal exemption) reporting
- W-2 (employee wage) reporting

The results of our testing disclosed no material instances of non-compliance for 2013.

Internal Management Reports

The second objective of the audit was to compile reports and evaluate internal management of:

- Overtime payments
- Retirees working over 750 hours
- Part-time employees exceeding 1000 hours
- Performance evaluations
- Short term sick leave
- Vacation day accumulation
- Compensatory hours accumulation
- Inactive employees
- On call compensation

We also performed limited testing in other areas including: manual payroll checks issued in 2013 and elected officials salary payment accuracy.

Audit criteria and standards included compliance with County of Lehigh Personnel Policies and Procedures. We also compared 2013 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 by performing the following procedures and analyses provide a reasonable basis for our findings and conclusions based on our audit objective. 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.

Key information evaluated disclosed county management's efforts at improved monitoring:

- Overtime Statistics:
 - 2013 overtime amounts and hours continued to decrease from 2012 by \$365,947 (13%) and 12,496 (16%), respectively.
 - Cedarbrook - Nursing overtime decreased from \$985,496 in 2012, to \$674,126 in 2013, which represents a \$311,371 (31.6%) decrease overall. In addition, total Purchased Personnel at Cedarbrook locations decreased by \$282,331 (65%) for 2013, when compared to 2012. Overtime and Purchased Personnel decreases can be at least be partially attributed to declining occupancy at both Cedarbrook locations.
 - The top 5 department-office-bureaus (DOB) accumulating overtime are as follows:

Top 5 Overtime - by DOB				
DOB	2013 O/T Pay	2013 O/T hrs	2012 O/T Pay	2012 O/T hrs
Prison	938,643	25,235	979,262	26,741
CB – AL - Nursing	454,519	13,696	672,642	20,778
CB – FH - Nursing	219,607	6,698	312,854	10,163
Juvenile Services	156,453	4,320	152,106	4,319
Coroner	126,972	3,262	107,902	2,845

- Analysis shows overall decreases in overtime at locations with 24-hour operations, however, there was a continued increase in the number of overtime hours and payments generated at Coroner’s Office. According to the Coroner’s 2013 Annual Report, there was an increase of approximately 10% in the number of investigations from 2012 to 2013.
- Retirees over 750 hours – There were no instances of retiree’s exceeding the 750 hour threshold without approval from the county executive during 2013.
- Part-time employees exceeding 1,000 hours – One part-time employee exceeded the allowable 1,000 hour maximum, based on anniversary year. Part-time employee hours are monitored yet, on occasion, established hour limits for part-time employees are exceeded by a few hours.
- Performance evaluations – There is no centralized file of performance evaluations. Some performance evaluations are filed in Human Resources (HR) while others are filed in department files. We requested HR management arrange for access to a sample of county employee performance evaluations. Out of the 20 employees randomly selected for testing, only one performance evaluation could not be located. However, we noted 13 of the 20 employees selected had performance evaluations dated immediately after the auditor’s request for copies indicating the evaluations may have been performed at the direction of HR management due to the audit. Also, HR personnel are not posting evaluation dates to the personnel system in the county KEA system.
- Short Term Sick Leave - There were 145 employees who used 10 or more days of short-term disability time in 2013; this was an 18% decrease when compared to 2012. Of these employees, 93% of the sick leave taken was done so in episodes of two days or less because *no doctor’s excuse is required until an employee takes three consecutive days off*. Using 2013 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 1 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							
	1 Days	2 Days	3 Days	4 Days	5 Days	6 + Days	Total # of Episodes
	1672	384	83	27	22	14	2202
Percentage of Total	75.93%	17.44%	3.77%	1.23%	1.00%	0.64%	100.00%

The Office of Children and Youth had the highest number of episodes (994) of two or less days of sick leave time taken due to union contract terms allowing employees to take sick time for reasons other than an employee sickness.

- Vacation day accumulation – Three employees exceeded the limit of 35 vacation days at year end.
- Compensatory time accumulation – Compensatory time balances for 13 (non-bargaining unit) employees exceeded the 80 hour limits set forth by management. Ten of these employees have law enforcement responsibilities and are employed under the discretion of the District Attorney as County Detectives.

- Inactive employees – There was one Hazardous Material (Hazmat) employee who was active in the payroll system, but has never received a paycheck. In addition, there were an additional 13 Hazmat employees, who are still active in the system, but have not received a paycheck during the last 12 months. The number of active (non-Hazmat) employees who have not received a paycheck in the last 12 months increased from two employees in 2012 to eleven in 2013.
- On Call Compensation – Human Resources management has made a diligent effort to classify employees as “exempt” or “non-exempt”, per federal law (fair labor standards act), however, Human Resources management has not formally instructed county managers to deny on-call pay for all exempt employees. County practice is to allow some employees who are classified as “exempt”, per the Office of Human Resources, to receive “on-call” compensation for job responsibilities that extended beyond normal working hours.

Recommendations:

- We suggest that management continue to perform their on-going analysis and reduction of overtime and purchased personnel costs by continued consideration of alternatives such as:
 - Identifying and eliminating functions not required by law;
 - Scheduling sufficient coverage where known absences occur (24/7 operations) to minimize the need for overtime; and
 - Adjusting workforce compliments if justified by required workload (Coroner).
- Human Resources management (HR) should request and each department confirm in writing that annual performance evaluations were performed. HR should post employee evaluation dates in the county personnel (KEA) system.
- Cost savings have been achieved by county-wide changes to the sick time policies (reduction in sick day benefit accumulation to six days per year). Contract negotiations should continue to focus on reducing the ability for union employees, specifically PSSU union members, to take sick time for reasons other than an employee sickness. As we reported in prior audits, we continue to endorse a short term sick leave policy that requires more personal accountability (i.e. – counting episodes versus the current practice of counting consecutive days off).
- Employees with 35+ days of vacation at year-end should be adjusted to 35 days per county policy. HR management should review and signoff on adjustments made (document reasons if adjustments are not made).
- We suggest that employees with compensatory balances in excess of 80 hours be required to drawdown compensatory time balances prior to using any other vacation/reward/personal time.
- The county time reporting system continues to allow inactive employees to appear on the bi-weekly time reports increasing the risk of payroll fraud in the county system. We recognize the possible need to keep certain employees “on-the-books” in case there is an unplanned and exigent need (e.g., HAZMAT). Other employees, some who have not worked in over the past 12 months, should be changed from active status to terminated status as to not appear on bi-weekly time reports.
- Consistent county-wide application of on-call payment procedures should be pursued.

As always, we look forward to working with the county administration to address the above issues. We wish to thank the office of human resources, the office of information technology, and the office of fiscal affairs for their cooperation during the audit.

This report is intended for the information and use of the office 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, John Falk, or me. Thank you for your assistance.



Glenn Eckhart
County Controller

June 12, 2014
Allentown, Pennsylvania

Final Distribution:
Board of Commissioners
M. Judith Johnston, Human Resources Officer
Thomas S. Muller, County Executive
Timothy A. Reeves, Fiscal Officer



COUNTY OF LEHIGH
Department of Administration

Daniel K. McCarthy
Director

TO: Glenn Eckhart, Controller
FROM: Daniel K. McCarthy, Director of Administration *D.K.M.*
DATE: June 12, 2014
RE: Response to Performance of Audit of Year-End Payroll-2013

I have had the opportunity to review the draft of the Performance Audit for Year-End Payroll for 2013. I appreciate both the depth of your investigation and clarity of your report. I am pleased that the Prison and Cedarbrook overtime expenditures are lower in 2013 than 2012.

Some of your recommendations are already being implemented. However, some other of your recommendations are difficult to implement in certain county offices governed by collective bargaining agreements. However, the administration is working to modify some of those provisions through the collective bargaining process related to new union contracts.

As it relates to your observation regarding employees exceeding the 35 days of vacation 2 were military and were paid out in the first quarter. The other employee has been adjusted. Active employees vacation status are reviewed several times through the year with the Department Head and days are removed with their approval.

Regarding sick leave time the administration is making efforts to reduce sick time allocations for employees to a number more reflective of private sector sick leave policies.

Thank you for your review of the 2013 payroll records.

xc: Timothy A. Reeves, Fiscal Officer
M. Judith Johnston, Human Resources Officer
Kay Achenbach, Human Services Director
Tom Muller, County Executive

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