



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 22, 2015
RE: Performance Audit of Year-End Payroll - Executive Summary

We have completed our performance audit of year-end payroll for the year 2014. Our report number 15-9 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:

- The two fees associated with the Patient Protection and Affordable Care Act, the Transitional Re-insurance Fee and the Patient-Centered Outcomes Research Institute Fee, were assessed to only a portion of Lehigh County employees in 2014. The aforementioned fees were not assessed to union employees but were assessed to non-union employees. While these fees are not a tax, the assessment of the fees to only a portion of the employee population promotes a stigma of inequality.
- Payscales that relate to the Service Employees International Union: Meet and Discuss Unit, which comprise paycales 8, 13 and 14, were not assessed the fees associated with the above mentioned Patient Protection and Affordable Care Act.
- Some active, part-time employees are working their 1,000 hours in roughly three-fourths of the year and are then filing for unemployment compensation (UC) for the remaining one-fourth of the year until their hours reset. There are currently no policies and procedures being enforced to restrict employees from working a majority of their hours in a concentrated period of time and enhancing their wages for UC purposes. With Lehigh County being self-insured, there is a direct financial impact associated with allowing active, part-time employees to maximize unemployment compensation.

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 2014*

REPORT NO. 15-9

COUNTY OF LEHIGH, PENNSYLVANIA
YEAR-END PAYROLL

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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 2014. 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 2014. 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 and state procedures and regulations for various reports including, among others, quarterly payroll tax return filings, W-4 (federal exemption) reporting, W-2 (employee wage) reporting, Form I-9 compliance, unemployment compensation payments, and Transitional Reinsurance Fee reporting. ***The results of our testing disclosed no material instances of non-compliance for external reporting in 2014; however, we noted two management issues that we believe should be addressed by county management:***

1. Patient Protection and Affordable Care Act:

- The County of Lehigh maintained compliance with the Affordable Care Act by fulfilling its obligation to pay the Transitional Reinsurance Fee.
- Management elected to defer this cost to its employees. However, detailed testing revealed an unfair assessment as to what groups of employees were actually assessed. Non-represented county employees paid \$88,506 of the reinsurance fee through payroll deductions while \$171,718 was paid by the county for represented employees.
- Actual county payment obligation did not match individual employee payroll deductions. Please refer to the ***Schedule of Audit Findings and Recommendations – Findings #1& #2.***

2. Unemployment Compensation for Active Part-time Employees:

- Active employees have been, and currently are, receiving unemployment compensation. These employees work a majority of their hours in a concentrated period of time allowing them to legally collect unemployment compensation.

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

Internal Management Reports

The second objective of the audit was to compile reports and evaluate internal management of: bi-weekly payroll processing including longevity payments, county-wide overtime payments / purchased personnel (at the nursing homes), compensatory time reporting, on-call reporting, retirees working over 750 hours, part-time employees exceeding 1000 hours, short-term sick leave accumulation, vacation day accumulation, annual performance evaluations, inactive employees, and deductions for healthcare benefits / proof of dependency / benefit eligibility. We also performed limited testing in other areas including manual payroll checks issued in 2014, 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 2014 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.

Key audit results:

1. Overtime Payments

Year:	2011	2012	2013	2014
Hours:	90,377	79,830	67,334	69,047
Dollars:	\$3,105,765	\$2,782,709	\$2,416,792	\$2,466,737

- The County of Lehigh, during the calendar year 2014, experienced an increase in both overtime hours and overtime cost. This represents roughly a 2.5% and 2% change, respectively.
- The top 5 department-office-bureaus (DOBs) are accumulating overtime are as follows:

Overtime Statistics – Top 5 DOBs				
DOB	2014 O/T Pay	2013 O/T Pay	2014 O/T Hrs	2013 O/T Hrs
Prison	\$943,140	\$938,653	25,282	25,235
CB – AL – Nursing	597,679	454,519	18,126	13,696
CB – FH – Nursing	231,113	219,607	7,152	6,698
Coroner	133,002	126,972	3,383	3,262
Communication Center	114,582	83,303	3,438	2,507

- 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; and
 - Adjusting workforce compliments if justified by required workload (Coroner). The workload of the Coroner’s Office continues to increase contributing to overtime costs. According to the Coroner’s 2014 Annual Report, there was an increase of approximately 5.56% in the number of investigations from 2013 to 2014.
 - An outdated Administrative Notice erroneously cites pay grade as the determining factor in eligibility for overtime, compensatory time and on-call pay.

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

2. Cedarbrook Purchased Personnel

Year:	2011	2012	2013	2014
Allentown	\$144,626	\$304,411	\$87,744	\$106,523
Fountain Hill	\$131,844	\$127,502	\$61,838	\$85,227
Total	\$276,470	\$431,913	\$149,582	\$191,750

- Cedarbrook’s purchased personnel (predominantly contract nursing) for the calendar year 2014 cost \$191,750. This represents a \$42,168 (28%) increase from 2013.

3. Retirees Working Over 750 Hours

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

4. Part-Time Employees Exceeding 1,000 Hours

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

5. Short-Term Sick Leave

- There were 128 employees *who used 10 or more days* of short-term disability time in 2014; this was an 11.7% decrease when compared to 2013.
- Of these employees, 93.5% 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 2014 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 – 2014							
	1 Day or Less	2 Days	3 Days	4 Days	5 Days	6 + Days	Total # of Episodes
Number of Episodes:	1461	347	65	29	11	21	1934
Percentage of Total:	75.5%	17.9%	3.4%	1.5%	0.6%	1.1%	100.0%

- The Office of Children and Youth Services (OCYS) had the highest number (977) of the above episodes (50%) of sick leave time taken due to union contract terms allowing employees to take sick time for reasons other than an employee sickness. Reduction of sick time by OCYS would be possible through labor agreement negotiation.

6. Vacation Day Accumulation Testing

- There were no employees with vacation day balances that materially exceeded 35 days.

7. Compensatory Time Accumulation

- Compensatory time balances for 21 employees (bargaining and non-bargaining) exceeded either the 80 hour limit set forth by management in the Lehigh County Policies and Procedures Manual or the limit imposed by the employees' respective union contract. Please refer to the *Schedule of Audit Findings and Recommendations – Finding #5*.

8. Inactive Employees

- There were a total of 24 employees that were active in the personnel system but had not received a paycheck in calendar year 2014. Of these 24 employees, 18 were associated with the Hazardous Materials Unit (Hazmat) – Hazmat employees are kept active to facilitate payroll payments when incidents occur, however, six were listed as working for departments other than Hazmat. Please refer to the *Schedule of Audit Findings and Recommendations – Finding #6*.

9. On-call Compensation

- Multiple departments were selected for testing of their on-call process. During detail testing, inconsistencies were discovered regarding employee leave time reporting at the Office of Children and Youth Services. Please refer to the *Schedule of Audit Findings and Recommendations – Finding #7*.

10. Performance Evaluations

- Historically, merit increases were granted only to employees with satisfactory evaluations. Merit increases have been suspended for the past several years and annual performance evaluations have not been required by the county administration nor monitored by Human Resources management.
- Also, 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 Human Resources management arrange for access to a sample of county employee files to view the performance evaluations. Out of the 20 employees randomly selected for testing, five of the 20 employees did not have a performance evaluation completed in 2014. Also, HR personnel are not always posting evaluation dates to the personnel system in the county KEA system.

Please refer to the *Schedule of Audit Findings and Recommendations – Finding #8*.

As always, we look forward to working with the county administration to address the above issues noted 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 Efftig, John Falk, or me.



Glenn Eckhart
County Controller

June 17, 2015
Allentown, Pennsylvania

Audited by Zachary Efftig

Final Distribution:

Kay L. Achenbach, Director of Human Services
Board of Commissioners
M. Judith Johnston, Human Resources Officer
Thomas S. Muller, County Executive
Timothy A. Reeves, Fiscal Officer

COUNTY OF LEHIGH, PENNSYLVANIA
2014 YEAR-END PAYROLL AUDIT

Schedule of Audit Findings and Recommendations

1. Unequal Assessment of Fees Related to the Affordable Care Act (ACA)

Condition: The two fees associated with the Patient Protection and Affordable Care Act, the Transitional Re-insurance Fee and the Patient-Centered Outcomes Research Institute Fee, were assessed to only a portion of Lehigh County employees in 2014. The aforementioned fees were not assessed to union employees but were assessed to non-union employees. Also, there were some represented employees who should have paid the re-insurance fee in 2014 but were not charged by the county administration. While these fees are not a tax, the assessment of the fees to only a portion of the employee population promotes a stigma of inequality. Moreover, the fixed amount that was charged to the non-union employees through involuntary payroll deductions did not accurately reflect the individual employee's portion of the total amount due to the federal government.

Recommendation: Management should immediately stop the collection of fees associated with the ACA to promote a fair and equal working environment. Management was unable to, and is still unable to today, forecast the amount in which will be due to the federal government for these fees as the guidelines come out only months before the payment is due. Therefore, we recommended that management stop the collection of ACA fees. If the county administration continues to selectively collect this unequal assessment from the non-union employees, the payment should be based on the actual cost for each employee. Since the methodology of the payment may not be known during the year, we suggest consideration be given to retroactively assessing/adjusting the fees once it can be accurately determined how much each employee owes.

2. Payscale Inappropriately Exempt from Fees Related to the Affordable Care Act

Condition: Payscale that relate to the Service Employees International Union: Meet and Discuss Unit, which comprise paycales 8, 13 and 14, should have been assessed the fees associated with the Patient Protection and Affordable Care Act mentioned above and were not.

Recommendation: If management is going to continue to charge the ACA fees to Lehigh County employees, the employees in paycales 8, 13, and 14 should also be included in that assessment. Management should also consider whether the employees in the Service Employees International Union (Meet and Discuss Unit) should be back-charged for the 2014 fees for which the County of Lehigh should have collected.

COUNTY OF LEHIGH, PENNSYLVANIA
2014 YEAR-END PAYROLL AUDIT

Schedule of Audit Findings and Recommendations

3. Paying Active, Part-Time Employees Unemployment Compensation (UC)

Condition: Some active, part-time employees are working their 1,000 hours in roughly three-fourths of the year and are then filing for UC for the remaining one-fourth of the year until their hours reset. There are currently no policies and procedures being enforced to restrict employees from working a majority of their hours in a concentrated period of time and enhancing their wages for UC purposes. With Lehigh County being self-insured, there is a direct financial impact associated with allowing active, part-time employees to collect unemployment compensation.

Recommendation: To mitigate the financial impact of part-time employees filing for UC, management should implement a policy that restricts part-time employees to working a maximum of 19 hours a week. This allows part-time employees to work 988 hours annually (a 12 hour safety net from the maximum 1,000 hours) and mitigates the amount that Lehigh County could potentially still have to pay out in unemployment compensation.

4. County Administrative Notice 86-4

Condition: County Administrative Notice #86-4, titled "Fair Labor Standards Act" (FLSA), outlines the county policy as to compensatory time / overtime eligibility. This internal policy, issued in 1986, cites that those employees grade 22 and above are typically ineligible to receive compensatory time. Since then, Human Resources management has compiled a list by position code that established which employees are exempt and nonexempt. In testing whether employees were conforming to Lehigh County time reporting policies and procedures, out-dated Administrative Notice number 86-4 was referenced by management regarding what employees are exempt and non-exempt from receiving compensatory time / overtime per county practice.

Recommendation: Since the county now has 15 active pay scales all with different numeric grades, we recommend the Human Resources Officer issue a new Administrative Notice eliminating the reference to a specific salary grade for compensatory time, overtime pay and on-call pay eligibility. We believe eligibility for compensatory time, overtime pay and on-call pay should be based on classification of the position as exempt or non-exempt (from the FLSA). This new notice should be addressed and distributed to all department heads with a brief summary of what it means to be exempt or non-exempt per the FLSA.

5. Compensatory Time Accumulation

Condition: Compensatory time balances for 21 employees, of which are 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.

Recommendation: We suggest that 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.

COUNTY OF LEHIGH, PENNSYLVANIA
2014 YEAR-END PAYROLL AUDIT

Schedule of Audit Findings and Recommendations

6. Inactive Employees

Condition: The Lehigh 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 need to keep certain employees “on-the-books” in case there is an unplanned and exigent need (e.g., Hazmat).

Recommendation: Employees not associated with emergency response related fields who have not worked in a prior 12 month period should be changed from active status to terminated status as to not appear on bi-weekly time reports.

7. OCYS Non-compliance with Lehigh County Policies and Procedures

Condition: In the Office of Children and Youth Services (OCYS), compensatory hours earned and compensatory hours used were not always recorded in the county’s time reporting system. OCYS management has implemented a “flex-time” system (approved by the county administration) that allows for longer or shorter days during their internal, bi-weekly time reporting system as long as the total hours for the two weeks equals 80 hours. We noted that in some bi-weekly periods, hours exceeded or were less than 80 hours.

Recommendation: All compensatory time earned and used should be recorded in the county time reporting system. We recommend written clarification and reinstruction to OCYS employees as to the requirement of logging all compensatory time earned and used in the county time reporting system when an OCYS employee does not zero-out the time in a 40 hour work week (or if the administration approves, at least within an 80 hour time reporting period).

8. Performance Evaluations

Condition: Some employees are not having annual performance evaluations completed by their supervisors or department heads. All Lehigh County employees should have performance evaluations completed on an annual basis.

Recommendation: Human Resources’ management should request that each department confirm in writing that annual performance evaluations were performed for their respective employees. The evaluation dates should then be posted in the county personnel (KEA) system.



COUNTY OF LEHIGH
Department of Administration

Daniel K. McCarthy
Director

TO: Glenn Eckhart, County Controller
FROM: Daniel K. McCarthy, Director of Administration
DATE: June 17, 2015
RE: Response to Audit Findings and Recommendations- Payroll Audit

Thank you for providing me a copy of the Audit of the 2014 year end payroll conducted by your office. Permit me to respond to a number of points raised in the Audit letter of May 8, 2015:

1. Unequal Assessment of Fees Related to the ACA

Response: Administration acknowledges the timing differences related to the assessment of fees. The intent was to assess the fees to all employees, but the union employees required re-negotiated contracts before implementation. Once all union contracts have been re-negotiated the fees will be assessed equally to all employees.

2. Pay scales Inappropriately Exempt from ACA Fees

Response: Management acknowledges the inadvertent failure to assess the ACA fees to pay scales 8, 13, and 14 for the year 2014. The fees are being properly assessed for the year 2015 and due to the complexity and time requirement relating to reissuance of employee W-2's, etc. management has decided not to back-charge the employees impacted.

3. Paying Active, Part-time Employees Unemployment Compensation

Response: Staffing for Part-time 1000 hour employees is being addressed with the areas affected in order to equalize the time worked over the year.

4. County Administrative Notice 86-4

Response: Exempt-Non-exempt status was implemented in 2007, based on the position which determined eligibility for compensatory time, overtime and on call pay.

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5. Compensatory Time Accumulation

Response: HR will work with the employees with balances exceeding their limit to drawdown those balances prior to using other leave time.

6. Inactive Employees

Response: Inactive employees are periodically reviewed with each Department to determine if they are to remain on the payroll system.

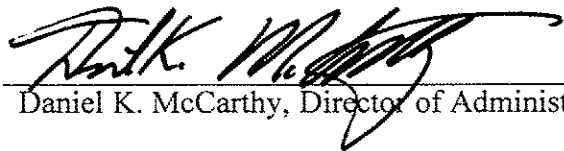
7. OCYS Non-compliance with Lehigh County Policies and Procedures

Response: A notice has been sent to Human Services regarding accurately reflecting time on payroll sheets.

8. Performance Evaluations

Response: Human Resources will be looking into a tracking system with the implementation of the new ERP system.

Again thank you for completing the Audit in a timely manner and sharing your concerns and suggestions with the Department of Administration.



Daniel K. McCarthy, Director of Administration

cc: Timothy Reeves, Fiscal Officer
Judith Johnston, Human Resources Director
Thomas S. Muller, County Executive