



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: July 15, 2013
RE: Performance Audit of Year-End Payroll - Executive Summary

We have completed our performance audit of year-end payroll for the year 2012. Our report number 13-44 is attached.

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

- 2012 overtime amounts and hours decreased by \$323,056 (10%) and 10,546 (12%), respectively.
- Cedarbrook - Nursing overtime decreased from \$1,145,435 in 2011, to \$985,496 in 2012, which represents a \$159,939 (14%) decrease overall. A portion of the overtime decrease can be attributed to human resources efforts to classify Manager - Nurse Supervisors at Cedarbrook locations as "exempt" under the FLSA, thus limiting their ability to accumulate overtime hours and payments. However, total Purchased Personnel at Cedarbrook locations increased by \$155,443 (56%) for 2012, when compared to 2011.
- 21 % of total overtime generated during 2012 was done so during holiday periods (Christmas and New Years). Of the total overtime generated during the holiday periods, a majority (66%) of the overtime was earned by employees in Cedarbrook's Nursing Department (37%) and the Prison (29%).
- County management has made a significant effort 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.
- Seven employees who are classified as "exempt", per the Office of Human Resources, have received "on-call" compensation. Under the Fair Labor Standards Act, "exempt" employees are not required to receive "on-call" pay for duties that extend beyond normal business hours.

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 2012*

REPORT NO. 13-44

COUNTY OF LEHIGH, PENNSYLVANIA
YEAR-END PAYROLL

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Thomas S. Muller, 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 2012. 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 2012. 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
- Advanced earned income credit
- W-4 (federal exemption) reporting
- W-2 reporting

The results of our testing disclosed no material instances of non-compliance for 2012.

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
- Employee healthcare dependent verification
- Payroll time reporting process

We also performed limited testing in other areas including: employee social security number validation; manual payroll checks issued in 2012; elected officials salary payment accuracy; and on-call payments.

Audit criteria and standards included compliance with County of Lehigh Personnel Policies and Procedures. We also compared 2012 activity to prior periods 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

- 2012 overtime amounts and hours decreased by \$323,056 (10%) and 10,546 (12%), respectively.
- Cedarbrook - Nursing overtime decreased from \$1,145,435 in 2011, to \$985,496 in 2012, which represents a \$159,939 (14%) decrease overall. A portion of the overtime decrease can be attributed to human resources efforts to classify Manager - Nurse Supervisors at Cedarbrook locations as “exempt” under the FLSA, thus limiting their ability to accumulate overtime hours and payments. However, total Purchased Personnel at Cedarbrook locations increased by \$155,443 (56%) for 2012, when compared to 2011.
- The top 5 departments accumulating overtime are as follows:

Top 5 Overtime - by D.O.B				
Department	2012 O/T Pay	2012 O/T hrs	2011 O/T Pay	2011 O/T hrs
Prison	\$ 979,262	26,741	\$ 1,049,646	28,925
CB – AL - Nursing	672,642	20,778	819,485	25,507
CB – FH - Nursing	312,854	10,163	325,950	10,884
Juvenile Services	152,106	4,319	179,498	5,242
Coroner	107,902	2,845	79,785	2,098

- 21% of all overtime generated was done so during holiday periods which is double the percentage of average overtime generated during non-holiday periods. Holiday periods for this statistic are defined as the pay period ending 1/13/2012 and 1/11/2013 (Christmas and New Years).

- Further analysis determined that a majority (66%) of all overtime generated in holiday periods is done so by Cedarbrook – Nursing (37%) and the Prison (29%). However, employees working within departments that provide 24 hour operations are covered under collective bargaining agreements and are required to work holidays. This requirement and union negotiations guarantee employees 8 hours of holiday pay, in addition to, overtime compensation on the holiday they are required to work.
- Retirees over 750 hours – Two employees exceeded the allowable 750 hour limit and did not receive approval to exceed such limits. The responsibility to seek approval for the two part-time retirees, located at Cedarbrook and exceeding the 750 hour limit, rested with the Director of Administration at Cedarbrook, who has since been replaced.
- Part-time employees exceeding 1,000 hours – Six part-time employees 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 – A majority of county employees received their annual performance evaluations during 2012; however, some department managers believe that annual performance evaluations for long-term employees are redundant and mitigated by the fact that most employees, regardless of union affiliation, are evaluated on a daily and ongoing basis. This is contrary to a 2012 directive issued by the Office of Human Resources requiring all employees to receive performance evaluations, unless otherwise specified in union contracts.
- Short Term Sick Leave - There were 171 employees who used 10 or more days of short-term disability time in 2012; this was a 64% increase when compared to 2011. Of these employees, 95% 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. 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.

The Office of Children and Youth had the highest number of episodes (1,055) 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. These employees were given approval by Administration to exceed the policy limits, on a one time basis, due to the reassessment appeals process.
- Compensatory time accumulation – Compensatory time balances for a number of employees exceed the 80 hour limits set forth by management. A majority of these employees have law enforcement responsibilities and are employed under the discretion of the District Attorney as County Detectives.
- Inactive employees – There are two Hazardous Material employees who are active in the payroll system, but have never received a paycheck. In addition, there are an additional sixteen employees, two of whom are Non-Hazardous Material employees, who are still active in the system, but have not received a paycheck during the last twelve months.

- Health Care Coverage – Dependent Verification – Health care dependents eligibility continued to be verified by human resources personnel during 2012 for both new employees and employees changing coverage and there have been no instances in which management was unable to verify dependent status of employee’s spouses, and/or children.
- On Call Compensation – The Office of Human Resources has made a diligent effort to classify employees as “exempt” or “non-exempt”, per Fair Labor Standards, however, the office has not formally instructed county managers as to the proper application of these standards. Seven employees who were classified as “exempt”, per the Office of Human Resources, have received “on-call” compensation for job responsibilities that extended beyond normal working hours.

Recommendations and areas remaining open for discussion and continued change:

- We continue to suggest that management perform a formal and on-going analysis to document the cost and timing of maintaining current workforce levels with overtime and purchased personnel (contract labor) to determine the most effective alternative. Management should justify the continued use of overtime and purchased personnel versus other alternatives such as:
 - ID’ing 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).
- Further cost savings are achievable by county-wide changes to the sick time policies. These changes should be uniform to all county employees, regardless of union affiliation. Future contract negotiations should 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 discussed previously, we continue to endorse a short term sick leave policy that requires more personal accountability.
- We suggest that employees with compensatory balances in excess of 80 be required to drawdown compensatory time balances prior to using any other benefit 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.
- We suggest that the Office of Human Resources provide training to all county managers in regards to the proper interpretation and administration of “exempt” and “non-exempt” employment status. Furthermore, “on-call” compensation for “exempt” employees should cease immediately.

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.

A handwritten signature in black ink, appearing to read 'Glenn Eckhart', written in a cursive style.

Glenn Eckhart
County Controller

July 9, 2013
Allentown, Pennsylvania

Final Distribution:

Board of Commissioners
Matthew Croslis, County Executive
M. Judith Johnston, Human Resources Officer
Brian Kahler, Fiscal Officer



COUNTY OF LEHIGH
Department of Administration

Thomas S. Muller
Director

July 9, 2013

Glenn Eckhart, Controller
Lehigh County Government Center
17 S. 7th Street
Allentown, PA 18101

Dear Glenn:

Thanks for providing us with an extensive audit of our 2012 payroll-related actions/issues. It's encouraging to note that, with minor exceptions, established policies and procedures are being followed, and I will only comment very briefly on three of the observations and recommendations.

1. **Overtime:** To suggest that there is not a "formal and on-going analysis" regarding overtime and staffing is disingenuous. The Administration is constantly working with departments to determine if the hours are necessary and then to strike the most economic balance of part-time or agency utilization, overtime or staffing changes and any decision to add staffing is not simply based on a short-term jump in demand. The audit cites the Coroner as an example and staffing for that area has increased over the years as *ongoing* demand was documented.
2. **Sick Days:** As you should be well aware, the County's sick day allowances have been significantly tightened over the past few years, including with most of our union agreements. It is a priority negotiation subject but not an issue where progress is easy, particularly since the County offers no disability coverage.
3. **Excessive Hours:** Obviously, our goal is to have no excess hours with employed retirees or part-timers, but it is encouraging that only two employed retirees exceeded the limit without formal approval and the most extreme part-timer excess was ten hours over the 1,000-hour limit. We continue to implore management to avoid any excesses and provide warnings when a limit is being approached and will continue to do so. However, *it's important to convey for the record that the departure of the Cedarbrook Administrator was in no way related to this or any other performance issue as might be interpreted from the audit's wording.*

We are taking any necessary corrective measures on each of the other minor observations and thank you and your department for the effort that went into this audit.

Sincerely,

Thomas S. Muller
Director of Administration

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