



COUNTY OF LEHIGH
OFFICE OF THE CONTROLLER

LEHIGH COUNTY GOVERNMENT CENTER
17 SOUTH SEVENTH STREET
ALLENTOWN, PA 18101-2400
(610) 782-3082 FAX: (610) 871-2897

GLENN ECKART
COUNTY CONTROLLER

JOHN A. FALK
DEPUTY CONTROLLER

TO: Final Distribution
FROM: Glenn Eckhart, County Controller
DATE: July 6, 2012
RE: Performance Audit of Year-End Payroll - Executive Summary

We have completed our performance audit of year-end payroll for the year 2011. Our report number 12-9 is attached.

County management continues to make efforts to address the issues raised in our annual year-end payroll report. Many of the areas included in our audit are adequately monitored. Other areas remain open for discussion and constructive change:

- County management indicates overtime at the nursing homes and at the county prison is closely monitored. We suggest a formal analysis be performed to document whether the cost of maintaining current workforce levels with overtime and purchased personnel (contract labor) is the most effective alternative. We will assist in this effort if requested.
- Cost savings are achievable by county-wide changes to the sick time policy. Requiring a doctor's excuse only after three consecutive sick days has resulted in significant undocumented leave time. As we discussed previously, we continue to endorse a short-term sick leave policy that requires more personal accountability.
- The county time reporting system requires system improvements to properly monitor inactive employees.

Please feel free to contact me if you have any questions.

Attachment

AUDITS/YEAR-END PAYROLL

COUNTY OF LEHIGH, PENNSYLVANIA

YEAR-END PAYROLL

*Performance Audit of Year-End Payroll
For the Year 2011*

COUNTY OF LEHIGH, PENNSYLVANIA
YEAR-END PAYROLL

Table of Contents

	Page(s)
Opinion of Glenn Eckhart Lehigh County Controller.....	1-4
Director of Administration's Response.....	5-6



COUNTY OF LEHIGH
OFFICE OF THE CONTROLLER

LEHIGH COUNTY GOVERNMENT CENTER
17 SOUTH SEVENTH STREET
ALLENTOWN, PA 18101-2400
(610) 782-3082 FAX: (610) 871-2897

GLENN ECKHART
COUNTY CONTROLLER

JOHN A. FALK
DEPUTY CONTROLLER

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 2011. 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 2011. 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 2011.

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 2011; 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 2011 activity to prior periods performance. Audit standards applied in performing the audit included generally accepted government auditing standards, and Government Auditing Standards (July 2007 revision) 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 payments – Total overtime payments and hours have both decreased by 4% and 6% respectively, since 2010. However, the inclusion of a 27th pay period in 2010 contributed 4% towards overall overtime costs in 2010. Removal of the 27th pay period for comparison purposes shows overtime wages paid to be equal with 2010 and hours to have decreased by 3%. As in 2010, there were 55 employees who earned over \$10,000 in overtime payments during 2011 (50 of the 55 worked either at a nursing home or corrections facility). Also, there was a 40% decrease in purchased personnel costs from 2010 to 2011 at nursing home locations.
- Retirees over 750 hours – All employees who exceeded the allowable 750 hour limit received approval to exceed such limit.
- Part-time employees exceeding 1,000 hours – Two part-time employees, one located at Cedarbrook, the other located in the sheriff's office exceeded the allowable 1,000 hour maximum, based on anniversary year.
- Performance evaluations – Human Resources did not require annual performance evaluations for every employee in 2011. However, in 2012, Human Resources began requiring performance evaluations for all employees, unless specified in the union contract.
- Short-term sick leave – There were 104 employees who used 10 or more days of short-term disability time in 2011, this is a reduction of 47% over the previous year. Of these employees 95.24% of the sick leave taken by this group was used in episodes of two days or less. Most episodes were of durations of two days or less because no doctor's excuse is required until an employee takes three consecutive days off. In 2012, Human Resources management implemented an annual accrual limit of six days per year for non-union county employees.

- Vacation day accumulation –No employee exceeded 35 vacation days at year end per county policy.
- Compensatory time accumulation –There were nine employees who exceeded the 80 hour maximum compensatory time accumulation limit. These nine employees received authorization from Human Resources.
- Inactive employees – Five employees (non-HAZMAT) remain active in the county time reporting system who have not worked at all in the last 12 months.
- Health Care Coverage – Dependent Verification –There have been no instances in which management was unable to verify dependent status of employee’s spouses, and/or children.
- Payroll Time Reporting- Beginning in November 2011 the county restricted the ability of a person to enter and approve hours worked for their department in the same payroll period.

Conclusions:

County management continues to make efforts to address the management issues raised in our annual year-end payroll report. Many of the areas included in our audit are adequately monitored:

- Vacation day accumulation is monitored and adjusted per county policy.
- Retiree and part-time employee hours are also monitored yet, on occasion, established hour limits for part-time employees are exceeded.
- Health care dependents eligibility continued to be verified by human resources personnel during 2011 for both new employees and employees changing coverage.
- System controls were enacted preventing “exempt” employees from receiving compensatory and/or overtime accumulations.
- In November 2011, the county Fiscal Officer enacted controls in the payroll reporting system to prevent the same employee from entering and approving timesheets in the same pay period.
- In 2011, Human Resources management began approving personnel who were required to exceed the 80 hour limit of comp time accumulation.

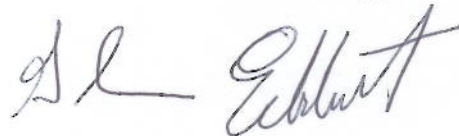
Other areas remain open for discussion and constructive change:

- County management indicates overtime at the nursing homes and at the county prison is closely monitored. We suggest a formal analysis be performed to document the cost of maintaining current workforce levels with overtime and purchased personnel (contract labor) is the most effective alternative. We will assist in this effort if requested.

- Further cost savings are achievable by county-wide changes to the sick time policy. Requiring a doctor's excuse only after three consecutive sick days has resulted in significant undocumented leave time. As we discussed previously, we continue to endorse a short time sick leave policy that requires more personal accountability. Policy changes are limited, in many cases, by the current union contract provisions for sick time and should be addressed by management.
- 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 to (a newly established) inactive status as to not appear on bi-weekly time reports.
- The county currently uses AD computer for the issuance of payroll payments and record keeping, including the issuance of paper check stubs of bi-weekly payroll information to all employees. It is our understanding that AD Computer offers an online payroll information system for employee access. We recommend that the county investigate if there are any cost savings to be derived from switching from the paper system to the online system.

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 Anthony Rapp, John Falk, or me. Thank you for your assistance.



Glenn Eckhart
County Controller

July 3, 2012
Allentown, Pennsylvania

Final Distribution:

Board of Commissioners
Donald T. Cunningham, Jr., County Executive
M. Judith Johnston, Human Resources Officer
Brian L. Kahler, Fiscal Officer



COUNTY OF LEHIGH
Department of Administration

Thomas S. Muller
Director

July 3, 2012

Mr. Glenn Eckhart, Controller
County of Lehigh

Dear Glenn:

This will provide the formal response to your department's Annual Payroll Audit and my comments will be consistent with the conversations we had during the discussion of the draft report. Most important, I want to thank your team—particularly Tony Rapp, who did all of the analysis and worked very smoothly with our folks.

Overall, I'm quite pleased with the audit report, which, while showing areas requiring further improvement, also identifies areas where some real progress has been made. I am most pleased with the progress on sick day incidences which, in part, is thanks to improvements negotiated into union contracts over the past couple of years. Accordingly, I'll merely address the "Conclusions" section of the report where issues were identified:

- We make every effort to avoid having part-time employees exceed the 1,000 hour limit and will continue to do so. As we discussed, we had a few cases where the limit was exceeded by just a few hours.
- We constantly monitor the comparison of contract labor costs versus employee overtime at the nursing homes and manipulate the scheduling to hit the best cost mix. Occasionally, the contract labor isn't available when needed but we have been very aggressive in attacking the overtime. Frankly, no assistance is needed, but we thank you for the offer.
- Contract labor is not an option for the prison, where we have to rely on a limited number of retirees who have the training and the experience with LCP protocols for part-time work. Unlike nursing, there isn't a reliable source of part-time Corrections Officers and many who have retired prefer to keep those duties in the rearview mirror.
- As I mentioned in our meeting, the sick time issue has been my top priority in union negotiations because the vast majority of the "violators" are staying within their contracted rights and changes require negotiation at contract time. That said, we made great progress with some of the unions on this front in the most recent negotiations and the progress is reflected in the 47% reduction noted in your report. Of the 104 employees noted in your report, roughly 70% are in the PSSU union for Human Services caseworkers and, while they wouldn't budge on the sick day allowance last year, the trade-off was a significant reduction in the minimum staffing level. However, we will continue to attempt to "tweak" the procedures within the guidelines of the union contract to make further gains. Jan Creedon and I will also be meeting with Human Services supervisors to review the details of the sick time issue and try to reign it in.

-5-

Government Center
17 South Seventh Street
Allentown, Pennsylvania 18101-2401
Phone: 610-782-3001
Fax: 610-820-3615
tommuller@lehighcounty.org

Mr. Glenn Eckhart
July 3, 20123
Page Two

- HR is working to remove non-emergency inactive employees from the bi-weekly time reports.
- As we discussed, there is no savings with AD Computer by going to a fully online payroll system and we still have a large number of employees without regular access to computers.

Again, thanks for a thorough and overall encouraging audit report.

Sincerely,



Thomas S. Muller
Director of Administration

TSM:sld

cc: M. Judith Johnston, B. L. Kahler, J. Falk, A. Rapp