




COUNTY OF LEHIGH
OFFICE OF THE CONTROLLER

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THOMAS SLONAKER
COUNTY CONTROLLER

JOHN A. FALK
DEPUTY CONTROLLER

TO: Final Distribution
FROM: Thomas Slonaker, County Controller
DATE: April 6, 2011
RE: Internal Audit of Year-End Payroll - Executive Summary



We have completed our internal audit of year-end payroll for the year 2010. Our report number 11-9 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:

- Human resources management does not require annual performance evaluations for county employees.
- County management indicates overtime at the nursing homes and at the county prison is closely monitored.
- 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 and to prevent the same employee from both entering attendance data and approving the department timesheet in the same period.

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

Attachment

COUNTY OF LEHIGH, PENNSYLVANIA
YEAR-END PAYROLL

*Internal Audit of Year-End Payroll
For the Year 2010*

REPORT NO. 11-9

COUNTY OF LEHIGH, PENNSYLVANIA
YEAR-END PAYROLL

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THOMAS SLONAKER
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 an internal audit of year-end payroll for the year 2010. In addition to audit procedures performed for each bi-weekly payroll during the year, selected audit procedures are performed at each year-end. 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 2010.

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 2010; elected officials salary payment accuracy; and on-call payments.

We conducted our audit in conformance with the “*International Standards for the Professional Practice of Internal Auditing*”, promulgated by the Institute of Internal Auditors. Our audit included examination of the accounting records, documentation, discussion with county personnel, and such other auditing procedures we considered necessary in the circumstances.

Our evaluation disclosed the following key information:

- Overtime payments – Total overtime payments and hours have both increased 9% since 2009. However, the inclusion of a 27th pay period contributed 4% towards overall overtime costs. There were 55 employees who earned over \$10,000 in overtime payments during 2010 (51 of the 55 worked either at a nursing home or corrections facility). Increases in overtime payments were compensated by a 40% decrease in purchased personnel costs at nursing home locations.
- Retirees over 750 hours – One employee, located at Cedarbrook, who had exceeded the allowable 750 hour limit, did not receive approval to exceed such limit, until after year end.
- Part-time employees exceeding 1,000 hours – Three part-time employees, located at Cedarbrook, exceeded the allowable 1,000 hour maximum, based on anniversary year.
- Performance evaluations – Human Resources does not require annual performance evaluations for every employee.
- Short-term sick leave – There were 197 employees (down from 214 in 2009) who used 10 or more days of short-term disability time in 2010 and 92.9% 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.
- Vacation day accumulation – No employee exceeded 35 vacation days at year end per county policy.
- Compensatory time accumulation – There were eight employees who exceeded the 80 hour maximum compensatory time accumulation limit.
- Inactive employees – Eight employees (non-HAZMAT) remain active in the county time reporting system who has 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 – The county time reporting system allows certain employees the ability to enter hours worked/leave time and also approves the department timesheet for the same period resulting in a significant internal control weakness.

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 are exceeded without prior authorization.
- Health care dependents eligibility was verified by human resources personnel during 2010. New employees' dependent eligibility is now verified on hiring.
- Short-term leave issues were addressed in the recently ratified sheriff's office union contract.
- System controls were enacted preventing "exempt" employees from receiving compensatory and/or overtime accumulations.

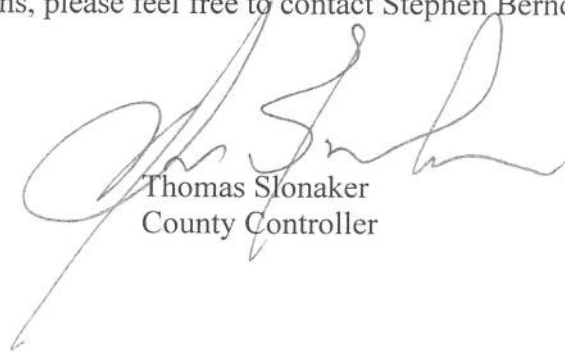
Other areas remain open for discussion and constructive change:

- Human resources management does not require annual performance evaluations for county employees. Internal control standards require adequate supervision including periodic assessment of employee performance, training needs, etc. Consider re-instatement of annual performance evaluations.
- County management indicates overtime at the nursing homes and at the county prison is closely monitored. The county administration maintains the current workforce levels with overtime and purchased personnel (contract labor) is the most cost effective alternative.
- 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 some cases, by the current union contract provisions for sick time.
- County personnel policy limits the accumulation of compensatory time to 80 hours. We noted several employees (law enforcement positions) that were required to exceed the county policy limit. However, no written documentation existed authorizing these employees to exceed such limits. In the future, written authorization to exceed the county policy 80 hour limit should be obtained and kept by human resources management from the appropriate office manager.
- 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 biweekly time reports.

- The county time reporting system provides some users the ability to enter both attendance data (hours worked/leave time) and approve the departments' time sheets in the same period. We recommend that system controls be established to prevent the same employee from both entering and approving departmental attendance data in the same period.

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.



Thomas Slonaker
County Controller

April 5, 2011
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

April 5, 2011

Thomas Slonaker
Controller
County of Lehigh
17 S. 7th Street
Allentown, PA 18101

Dear Tom:

I'd like to thank you and your staff, particularly Steve Berndt, for the work done on the 2010 Payroll Audit and I'd like to very briefly address several of the observation and discussion items mentioned in the draft report.

Accordingly, I'd offer the following comments:

- **Overtime** is an ongoing concern, particularly for the two "24-7-365" operations (the prison and Cedarbrook) and is monitored constantly. Contributing to the issue is the amount of sick days allowable via the union contracts but we've made progress in both operations on that front. At Cedarbrook, where the availability of agency nurses exists, we continually watch the cost of those agency nurses versus overtime or staffing additions. The prison situation is different because there are very limited, qualified retirees or part-timers who can fill in and normal time off is added to by military duty.
- I have addressed the errors on **the one retiree and the three part-timers at Cedarbrook who went over their allowable hours** and have been assured by Cedarbrook's leadership team that we will not see a repeat in 2011.
- Since **performance reviews** have historically been linked with merit increases (aka "steps"), completion of reviews was inadvertently stopped when the merit increases were eliminated in the 2010 Budget. I have advised HR to reinstate them regardless of the status of merit increases and I'd add that performance problems have been continuously addressed by the Administration and department heads; the County has "involuntarily" terminated an average of more than 50 employees each year over the past five years for performance issues.
- As mentioned above, **sick days** impact overtime costs; they also have the potential to impact service levels. However, for roughly 60% of our employees, sick days and required notices are dictated by collective bargaining agreements and the Administration is constantly negotiating to reduce allowable sick days and ensure that they are not misused. While the requirement for doctor's "excuses" may seem like a logical option, the resultant cost in medical expenses can be a costly trade-off. Union agreements aside, we do look at the details of the data that Steve pulled together and attempt to change habits via the supervisors and department heads.

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- Although there have been no cases of an **inactive employee** being paid, we have take action to eliminate all but the HAZMAT “inactives” from the reporting system.
- We are addressing the issue of the need for written confirmation of “**comp time**” with the respective elected officials or department heads.
- As we’ve discussed, the issue of having every **employee’s time** attested to by another employee is occasionally difficult, particularly with a stand-alone operation such as Cedarview. *I would appreciate it if you would provide us with specific suggestions for those areas/individuals where the problem exists.*

In addition to commenting on the items needing some attention, I am pleased to see that we’ve made progress on a number of fronts or are simply doing what should be done and appreciate your recognition. Thanks.

Sincerely,



Tom Muller
Director of Administration

cc: Judy Johnston