




COUNTY OF LEHIGH
OFFICE OF THE CONTROLLER

LEHIGH COUNTY GOVERNMENT CENTER
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TO: Final Distribution

FROM: Thomas Slonaker, County Controller 

DATE: April 15, 2008

RE: Internal Audit of Year-End Payroll - Executive Summary

We have completed our internal audit of year-end payroll for the year 2007. Our report number 08-8 is attached.

The attached report outlines several issues:

- Overtime pay has increased by 16% from 2006 to 2007;
- Inactive employees remain active in the time reporting system;
- Performance evaluations are not performed for all employees;
- Vacation time is not taken per county policy;
- Compensatory time is not taken within the 90-day limitation;
- Short-term sick day practices may result in abuse of the benefit;
- Lack of proper monitoring:
 - of retirees working in excess of 500 hours per year; and
 - of part-time employees working over 1,000 hours per year;
- The county personnel manual (issued in 1981) was not updated; and
- Cell phone practices may violate IRS wage reporting requirements.

The administration did not provide a written response to the audit.

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

Attachment

AUDITS/YEAR-END PAYROLL

COUNTY OF LEHIGH, PENNSYLVANIA
YEAR-END PAYROLL

Internal Audit of Year-End Payroll
For the Year 2007

REPORT NO. 08-8

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 an internal audit of year-end payroll for the year 2007. 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 2007.

Internal Management Reports

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

- Overtime payments
- Inactive employees
- Vacation day accumulation
- Compensatory hours accumulation
- Short-term disability use
- Other payroll-related payments
- Employee and retiree social security number verification

We conducted our audit in accordance with the "*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.

Based on our audit of the areas described above, we believe management actions are required for the following issues:

- Department managers should be required to evaluate their department's overtime use. Written documentation detailing reasons and potential alternatives to overtime should be reported to the director of administration each year.
- Inactive employees should be automatically removed from active status and removed from appearing on the department's next bi-weekly time report.
- Annual performance evaluations should be completed for all employees regardless of merit status.
- Upper limits (use or lose) should be established for vacation day time accumulation.
- Short-term sick time policy should be appropriately altered to limit the potential for sick time abuse.

A detail discussion of selected audit issues follows this report:

- Overtime payments
- Inactive employees
- Performance evaluations
- Vacation day accumulation
- Compensatory time accumulation
- Short-term sick time
- Part-time employees/retirees
- Lehigh County Personnel Policies & Procedures Manual
- Cell phone usage policy

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.

Allentown, Pennsylvania

Final Distribution:

Board of Commissioners
Donald T. Cunningham, Jr., County Executive

Thomas Slonaker
County Controller



M. Judith Johnston, Human Resources Officer
Brian L. Kahler, Fiscal Officer

County of Lehigh
 2007 Overtime
 (Refer to Charts 1 – 3E)

Total overtime hours have increased by 37,219 hours or 56% since 2004. The total cost for those hours has increased by \$1,238,247 or 70% since 2004.

Chart 1

County of Lehigh Overtime Payroll

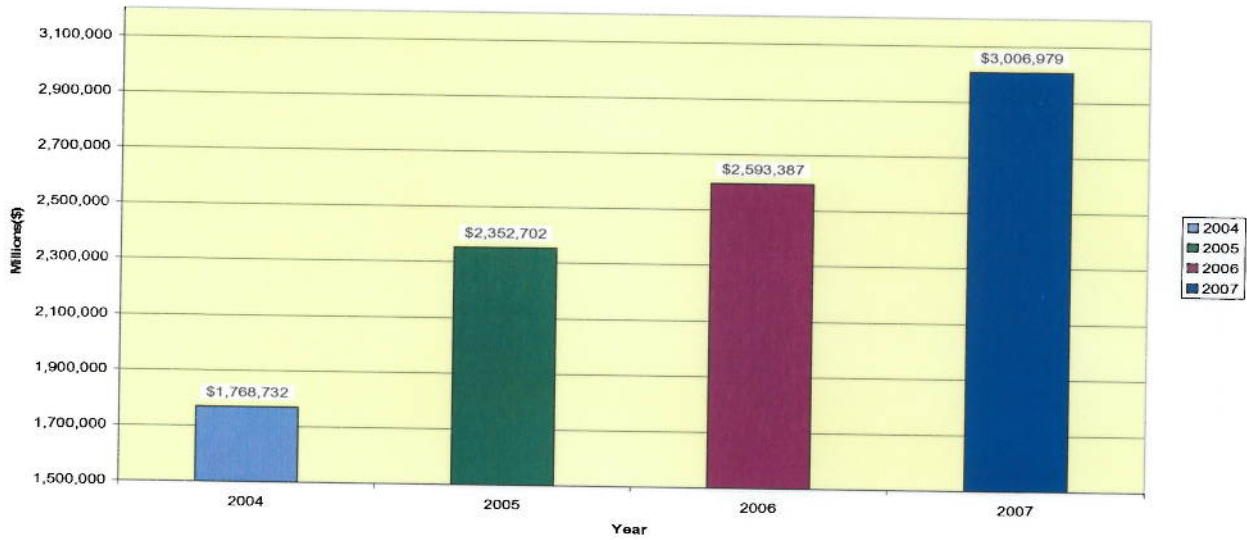
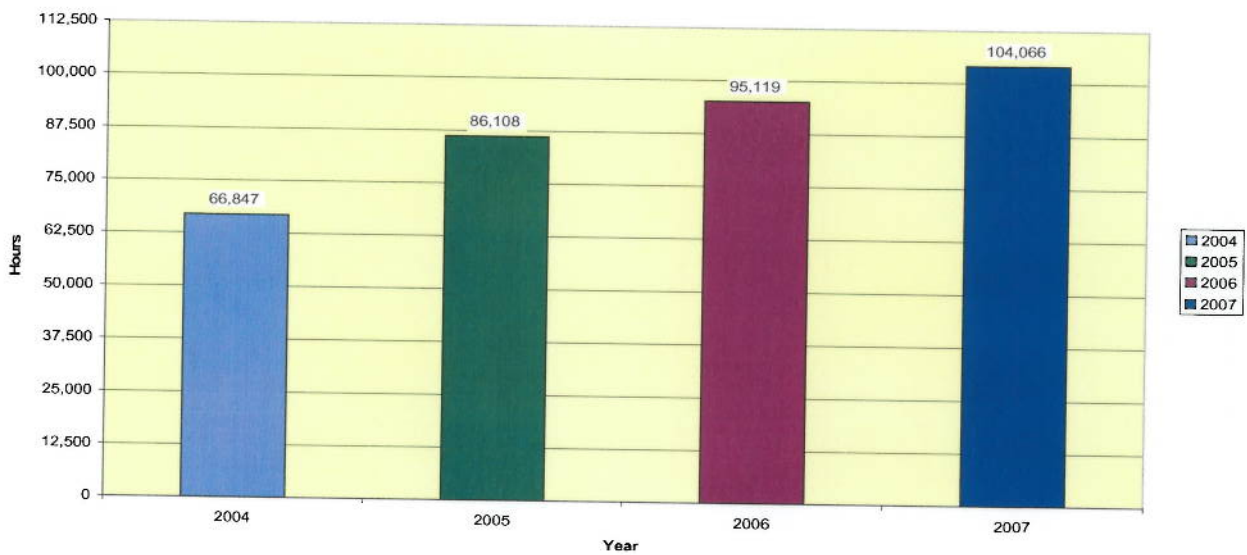


Chart 2

County of Lehigh Overtime Hours



County Of Lehigh
2007 Overtime

Chart 3

Top 5 Overtime Cost by Department/Office/Bureau

	D.O.B.	Department	2007 Overtime Cost	2006 Overtime Cost	Percent Change
A	080100	Prison*	\$1,155,770	\$964,662	20%
B	070101	CB-Nursing	734,369	692,069	6%
C	070201	FH-Nursing	219,620	158,114	39%
D	080200	Juvenile Services	213,635	179,346	19%
E	010300	Coroner	108,669	102,689	6%

The following five charts show the top overtime earners in each DOB above based on the percentage of regular salary earned in overtime.

Chart 3A - Prison

Top 10 Employees by Percentage of Regular Salary*

D.O.B.	Regular	Overtime	Total	Percentage
080100	\$ 46,464	\$ 41,867	\$ 88,331	90%
080100	48,060	42,150	90,210	88%
080100	35,425	26,769	62,194	76%
080100	46,980	33,645	80,625	72%
080100	32,669	20,885	53,554	64%
080100	34,845	20,079	54,924	58%
080100	47,520	26,696	74,216	56%
080100	46,980	24,474	71,454	52%
080100	47,509	24,673	72,182	52%
080100	47,520	20,551	68,071	43%

Further testing showed the prison employees worked a total of 36,693 overtime hours. We estimated that 9,900 of these hours were due to the method of accounting for prison holiday pay in the overtime category. This leaves a total of 26,793 hours of actual overtime. This is equivalent to 72 hours of overtime per day or 24 hours of overtime per shift.

We recommend management identify which shifts have historically required the use of overtime and determine if it would be cost effective to schedule additional corrections officers on those shifts to reduce the need for overtime.

*These figures include prison holiday pay due to the method of accounting for prison holiday pay in overtime.

County Of Lehigh
2007 Overtime

Chart 3B - Cedarbrook Allentown Nursing
Top 10 Employees by Percentage of Regular Salary

D.O.B.	Regular	Overtime	Total	Percentage
070101	\$ 25,815	\$ 20,015	\$ 45,830	78%
070101	26,829	19,492	46,321	73%
070101	35,755	23,145	58,900	65%
070101	26,932	16,245	43,177	60%
070101	26,675	14,618	41,293	55%
070101	26,184	14,295	40,479	55%
070101	45,480	23,947	69,427	53%
070101	26,726	13,926	40,652	52%
070101	26,144	13,364	39,508	51%
070101	28,557	14,398	42,955	50%

Chart 3C - Cedarbrook Fountain Hill Nursing
Top Employees by Percentage of Regular Salary

D.O.B.	Regular	Overtime	Total	Percentage
070201	\$ 27,034	\$ 20,980	\$ 48,014	78%
070201	23,841	14,141	37,982	59%
070201	35,755	10,347	46,102	29%

As a nursing facility, it is difficult to hire and retain employees during what many say is a nursing shortage. We recommend management evaluate nurse pay rates, work scheduling options, and working fringe benefits to determine if the county is competitive with other nursing employment opportunities in the area.

County Of Lehigh
2007 Overtime

Chart 3D - Juvenile Services

Top Employees by Percentage of Regular Salary

D.O.B.	Regular	Overtime	Total	Percentage
080200	\$ 35,265	\$ 11,755	47,020	33%
080200	46,980	12,754	59,734	27%
080200	47,464	11,737	59,201	25%
080200	55,586	10,525	66,111	19%

A new juvenile facility was recently opened; we recommend the current staffing levels be independently evaluated to determine their adequacy.

Chart 3E -Coroner

Top Employees by Percentage of Regular Salary

D.O.B.	Regular	Overtime	Total	Percentage
010300	\$ 47,697	\$ 28,759	\$ 76,456	60%
010300	48,590	14,788	63,378	30%
010300	55,162	16,039	71,201	29%
010300	52,064	13,496	65,560	26%

An increase in activity in the Coroner's office has lead to the increase in overtime. We recommend the staffing levels be independently evaluated for adequacy.

Scheduling options, use of part-time deputy coroners and the number of full-time positions should be included in the coroner office staffing evaluation.

County of Lehigh
Inactive Employees and Performance Evaluations

Inactive Employees

The number of employees who are active in the payroll system but have not received a paycheck, exclusive of Hazardous Materials employees, in the past 3 months has increased by 6 employees to a total of 57 as of December 31, 2007, a 12% increase from 2006. Additionally, 3 of these employees were inactive for all of 2007.

Failure to remove inactive employees from the timesheet system increases the risk of fraudulent payroll payments. We recommend management implement payroll/ time reporting system controls to automatically remove inactive and terminated employees.

Performance Evaluations

The Lehigh County Personnel Policies and Procedures manual requires annual performance evaluations for **all** employees. Chapter IV page 19 of the manual states:

“A performance evaluation shall be conducted at least annually and discussed between the supervisor and employee. Although supervisors should have regular informal contacts with their employees regarding day to day performance, the purpose of the written performance evaluation is to identify the employee's performance level, growth potential and development needs.”

There appears to be a misconception that performance evaluations are only necessary when there is a potential merit increase for the employee being evaluated. Current practice could send a message to employees that evaluations are only conducted to certify merit increases. This contradicts the stated policy goal of identifying an employee's performance level, growth potential and development needs. We recommend management use the same evaluation notification and recording procedure for all employees regardless of merit status.

County of Lehigh
Vacation Days and Compensatory Time Accumulations

Vacation Time Accumulation

There are 59 employees who have accrued over 35 vacation days which is a decrease of 3 employees or 6% from 2006. Current policy states:

“Accrued vacation for the current year is to be taken within the current anniversary year; however, a maximum of five (5) days may be carried over into the next year.”

While there has been a reduction in the number of employees in this area, we recommend that that management adopt a policy that limits the carryover of excessive amounts of vacation time from prior years to prevent the cost of vacation time being paid at salary rates greater than the salary rate when the vacation time was originally earned.

Compensatory Time Accumulation

Compensatory time is time earned that can be used in one of 2 ways. The time can be taken as additional paid hours to be paid in the period incurred or the time can also be taken as additional paid time off. Current county policy requires that compensatory time be used within 90 days of when it was earned.

There are 39 employees who are carrying 40 or more hours of compensatory time. This was an increase of 2 employees from 2006.

An opinion from the department of law dated May 20, 1996 recommends against enforcing the 90-day compensatory time rule. We have requested the department of law revisit the issue and recommend management either revise or enforce the 90-day compensatory rule depending upon the new legal opinion.

County of Lehigh
Short-Term Sick Time

Short-Term Sick Time- Episode Analysis

Of the 236 employees who used 10 or more short term sick days in 2007, our testing found that 93% of sick time use, was used in increments of 2 days or less. Current county policy requires a doctor’s excuse after 3 consecutive sick days. We tested the sick time use of employees, who used more than 10 short-term sick days, by classifying their uses into 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 1 episode; and
- Nonconsecutive absences were considered separate episodes.

**Chart 4
Number of Days per Episode**

	Consecutive Days Taken						Total # of Episodes
	1 or less	2	3	4	5	6 or more	
Number of Episodes	2325	555	127	42	35	20	3104

We recommend that management revise the current short-term disability policy to include limiting the number of episodes that a person can take without a doctor’s excuse.

County of Lehigh
Retirees and Part-Time Employees

Retirees Over 500 Hours

Current county policy states retirees may work part-time for the county for up to 500 hours a year without it affecting their pension. Cedarbrook nursing home retirees are allowed 750 hours if they work in nursing, security or therapeutic recreation. Any employee who works more than their allowable hours must have an approval letter signed by the county executive. In 2007 there were 4 individuals who exceeded the maximum amount of hours allowed and did not have an approval letter on file by December 31, 2007. Approval letters for 2 of these employees were written after December 31, 2007. We recommend management monitor the retirees approaching their hour limit and acquire permission to exceed the limit prior to the employee exceeding the limit.

Part-Time Employees Over 1,000 Hours

Current county policy states part-time employees do not have to contribute to the pension plan unless they are expected to exceed 1,000 hours. These hours are based on anniversary years and not calendar year as was done in the past. There were 7 part-time employees who exceeded the 1,000 hour mark in 2007 and did not contribute to the pension plan, despite notification from management the employee was close to exceeding that mark. We recommend management continue to monitor part time employees approaching 1,000 hours.

County of Lehigh
Personnel Manual and Cellular Phone Policy

Personnel Policies & Procedures Manual

The Lehigh County Board of Commissioners adopted the most recent edition of the Lehigh County Personnel Policies and Procedures Manual on July 22, 1981. Since then many changes, some documented by Administrative Notice, have been implemented. We strongly recommend that an updated county policy manual be created. The county external auditors, Zelenkofske Axelrod LLC, have raised this issue in their last two management letters.

Cellular Phone Policy

It has recently come to our attention that the Internal Revenue Service has declared the cost of cellular telephones issued to employees for use outside of the workplace shall be considered taxable income to the employee, unless the employee maintains a log of all calls made and their business purpose. We have requested an opinion from the department of law on the matter and recommend management adopt a cell phone policy in compliance with the opinion.