




COUNTY OF LEHIGH
OFFICE OF THE CONTROLLER

LEHIGH COUNTY GOVERNMENT CENTER
17 SOUTH SEVENTH STREET
ALLENTOWN, PA 18101-2400
(610) 782-3082 FAX: (610) 820-3335

TO: Final Distribution
FROM: Thomas Slonaker, County Controller 
DATE: June 1, 2009
RE: Internal Audit of Year-End Payroll - Executive Summary

We have completed our internal audit of year-end payroll for the year 2008. Our report number 09-17 is attached.

The attached report outlines several issues:

- Overtime payments-Total overtime hours decreased by 5% from 2007, however, there was a 9% increase in purchased personnel costs at Cedarbrook.
- Inactive employees-Human resources management checks for inactive employees twice a year and sends a letter to department managers to have the employees removed from payroll. Inactive employees should be automatically removed from active status and removed from appearing on the department's next bi-weekly time report.
- Performance evaluations-Human Resources does not require annual performance evaluations for every employee.
- Vacation day accumulation-In 2008, a policy was enacted and implemented where any employee who accumulated more than 35 vacation days lost the excess days at year-end.
- Compensatory time accumulation-In accordance with current county policy, there were no non-bargaining unit employees who exceeded 80 hours of compensatory time accumulation.
- Short-term sick time-There were 202 employees who used 10 or more days of short-term disability time in 2008. Most episodes were of durations of 2 days or less. Short-term sick time policy should be appropriately altered to limit the potential for sick time abuse.
- Part-time employees/retirees- There were no part-time employees who exceeded 1000 hours in 2008. All retirees over the hour limit for their area were given permission to exceed those hour limits.
- Lehigh County Personnel Policies & Procedures Manual-An updated policy manual was issued in 2008.
- Cell phone usage policy-We recommend that administration adopt a cell phone policy in accordance with IRS rules to prevent cell phones from being considered taxable income to the employees who are issued these phones.
- Exempt employees-The county should implement controls in the payroll system to prevent exempt employees from receiving overtime, on-call pay, and accumulation of compensatory time.

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 2008*

REPORT NO. 09-17

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 2008. 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 2008.

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

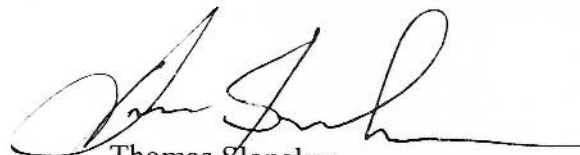
We conducted our audit in conformance with the "*International Standards for the Professional Practice of Internal Auditing*", promulgated by the Institute of Internal Auditors. Our audit included examination of the accounting records, documentation, discussion with county personnel, and such other auditing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

A detailed discussion of selected audit issues follows this report. We concluded:

- Overtime payments-Total overtime hours decreased by 5% from 2007, however, there was a 9% increase in purchased personnel costs at Cedarbrook.
- Inactive employees-Human resources management checks for inactive employees twice a year and sends a letter to department managers to have the employees removed from payroll. Inactive employees should be automatically removed from active status and removed from appearing on the department's next bi-weekly time report.
- Performance evaluations-Human Resources does not require annual performance evaluations for every employee.
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- Exempt employees-The county should implement controls in the payroll system to prevent exempt employees from receiving overtime, on-call pay, and accumulation of compensatory time.

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.


Thomas Slonaker
County Controller

May 29, 2009
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
2008 Overtime
(Refer to Charts 1 – 4)

Total overtime hours decreased by 5,064 hours or 4% from 2007 to 2008. The total cost for these hours remained level from 2007 to 2008.

Chart 1

County of Lehigh Overtime Payroll

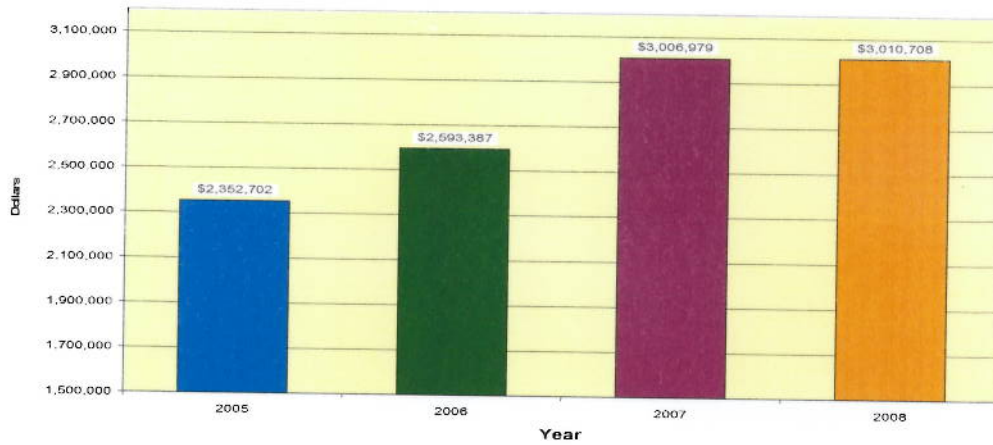
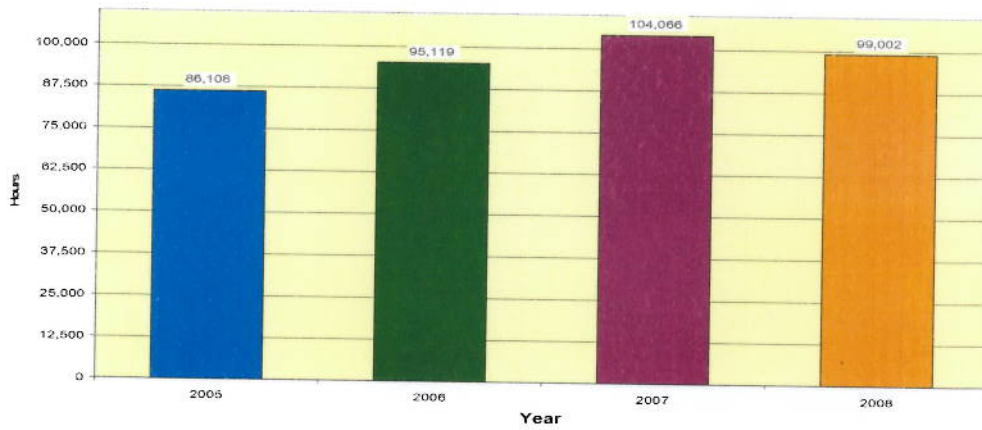


Chart 2

County of Lehigh Overtime Hours



County Of Lehigh
2008 Overtime

Chart 3
Top 5 Overtime Cost by Department/Office/Bureau

D.O.B.	Department	2008		2007		2007-2008	
		O/T Pay	O/T hrs	O/T Pay	O/T hrs	Change Pay	Change Hrs
080100	Prison	1,211,753.00	36,708.40	1,155,770.00	36,693.20	5%	0%
070101	CB-Nursing	669,258.50	25,724.00	734,368.80	29,596.70	-9%	-13%
070201	FH-Nursing	217,213.50	8,463.50	219,620.10	8,834.75	-1%	-4%
080200	Juvenile Services	206,812.60	6,913.25	213,634.70	7,638.50	-3%	-9%
080600	Mens Com. Corr.	101,771.80	2,774.25	108,669.40	3,222.50	-6%	-14%

All but one of the departments in the top five of overtime costs reduced costs and hours from 2007 to 2008.

Chart 4
Number of Employees Receiving more than \$10,000 in Overtime

2003	2004	2005	2006	2007	2008
18	19	41	45	57	57

While the number of employees receiving more than \$10,000 in overtime had been increasing since 2003, the number leveled off from 2007 to 2008.

Chart 5
Cedarbrook Nursing Homes
Cost of Contract Labor 2005 to 2008

	2005 Actual	Percent Increase	2006 Actual	Percent Increase	2007 Actual	Percent Increase	2008 Actual
Cedarbrook Allentown	\$ 181,335.00	33%	\$ 241,368.00	76%	\$ 424,311.00	-19%	\$ 342,081.13
Cedarbrook Fountain Hill	\$ 406,567.00	-6%	\$ 381,720.00	-1%	\$ 378,563.00	40%	\$ 530,447.40
Total	\$ 587,902.00	6%	\$ 623,088.00	29%	\$ 802,874.00	9%	\$ 872,528.53

The total cost of contract labor at Cedarbrook Nursing homes increased by 9% from 2007 to 2008.

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 decreased by 18 employees to a total of 39 as of December 31, 2008, a 32% decrease from 2007. Excluding hazardous materials employees, there are two employees who have not been paid in 12 months. There are 14 hazardous materials employees who have never received a paycheck.

Failure to remove inactive employees from the timesheet system increases the risk of fraudulent payroll payments. Although there has been improvement in reducing the number of non-hazardous materials employees who do not receive regular paychecks we continue to recommend management implement payroll/ time reporting system controls to automatically remove inactive and terminated employees.

Performance Evaluations

The current "County of Lehigh Personnel Policies and Procedures Manual" encourages annual performance evaluations for employees.

Adequate internal control requires that employee performance be evaluated on a regular basis. We recommend that administration require and track annual performance evaluations for all employees.

County of Lehigh
Vacation Days and Compensatory Time Accumulations

Vacation Time Accumulation

In December of 2008 the human resources office issued a new policy that employees:

“may not have more than 35 days of vacation leave by the end of the calendar year. 24 hour operations will follow site-specific procedures for vacation. Any vacation leave above 35 days will be removed from the employee’s leave record.”

As of the first payroll of 2009, no employee had more than 35 full vacation days.

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 *“Maximum accumulation of compensatory time is 80 hours”*.

There were no non-bargaining unit employees who exceeded 80 hours of compensatory time accumulation.

County of Lehigh
Short-Term Sick Time

Short-Term Sick Time- Episode Analysis

Of the 202 employees who used 10 or more short term sick days in 2008, 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 6
Number of Days per Episode

1 Days	2 Days	3 Days	4 Days	5 Days	6 + Days	Total # of Episodes
2486	492	116	46	48	1	3189

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 payment amount. Cedarbrook nursing home retirees are allowed 750 hours if they work in nursing, security or therapeutic recreation. All employees who exceeded the allowable hour amounts had approval letters on file.

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 no part-time employees who exceeded 1,000 hours based on their anniversary years.

County of Lehigh
Personnel Manual, Cellular Phone Policy and Exempt Employees

Personnel Policies & Procedures Manual

In December 2008, the human resources department issued a new policy and procedure manual.

Cellular Phone Policy

Lehigh County currently owns 461 cellular telephones at a service cost of \$9,100 per month. These phones are issued to various departments for employee use, with some phones issued directly to employees and other phones shared by groups of employees. The purpose of these phones varies by department. There is currently no formal county policy governing the issuance and use of cellular telephones.

In the 2007 year-end payroll audit, we reported 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. At that time, there was legislation pending in the U. S. Congress to make employer issued cell phones non-taxable to the employee. It appears this legislation has since stalled and the cell phone requirements are still in existence.

We recommend that administration adopt a cell phone policy in accordance with IRS rules to prevent cell phones from being considered taxable income to the employees who are issued these phones.

Exempt Employee Classifications

The county has a list of employees who are considered exempt according to the fair labor standards act. We found that some exempt employees received pay for overtime, on-call, and/or accumulated compensatory time, while other exempt employees did not receive any incremental compensation.

The county should implement controls in the payroll system to prevent exempt employees from receiving overtime, on-call pay, and accumulation of compensatory time.