




COUNTY OF LEHIGH
OFFICE OF THE CONTROLLER

LEHIGH COUNTY GOVERNMENT CENTER
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THOMAS SLONAKER
COUNTY CONTROLLER

JOHN A. FALK
DEPUTY CONTROLLER

TO: Final Distribution
FROM: Thomas Slonaker, County Controller 
DATE: April 12, 2010
RE: Internal Audit of Year-End Payroll - Executive Summary

We have completed our internal audit of year-end payroll for the year 2009. Our report number 10-5 is attached.

The attached report outlines several issues:

- Overtime payments-Total overtime hours decreased by 11% from 2008 and there was a 32% decrease 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-No employee exceeded 35 vacation days at year end per county policy.
- Compensatory time accumulation-There were six non-bargaining unit employees who exceeded 80 hours of compensatory time accumulation.
- Short-term sick time-There were 214 employees who used 10 or more days of short-term disability time in 2009. 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 2009. All retirees over the hour limit for their area were given permission to exceed those hour limits.
- 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.

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 2009*

REPORT NO. 10-5

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 2009. 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 2009.

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

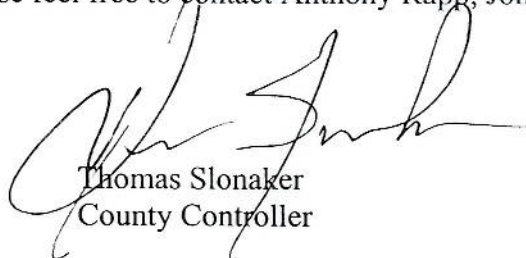
We conducted our audit in conformance with the "*International Standards for the Professional Practice of Internal Auditing*", promulgated by the Institute of Internal Auditors. Our audit included examination of the accounting records, documentation, discussion with county personnel, and such other auditing 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 11% from 2008 and there was a 32% decrease 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- No employee exceeded 35 vacation days at year end per county policy.
- Compensatory time accumulation-There were six non-bargaining unit employees who exceeded 80 hours of compensatory time accumulation.
- Short-term sick time-There were 214 employees who used 10 or more days of short-term disability time in 2009. 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 2009. All retirees over the hour limit for their area were given permission to exceed those hour limits.
- 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

April 7, 2010
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
2009 Overtime
(Refer to Charts 1 – 4)

Total overtime hours decreased by 11,062 hours or 11% from 2008 to 2009. The total cost for these hours decreased by \$110,689 from 2008 to 2009.

Chart 1

County of Lehigh Overtime Payroll

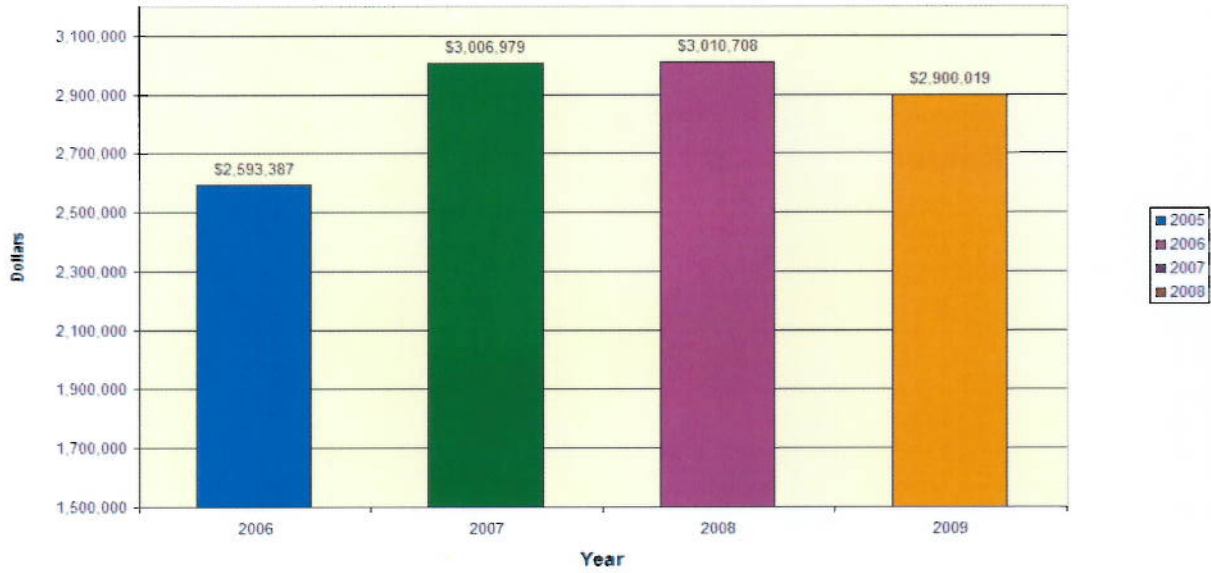
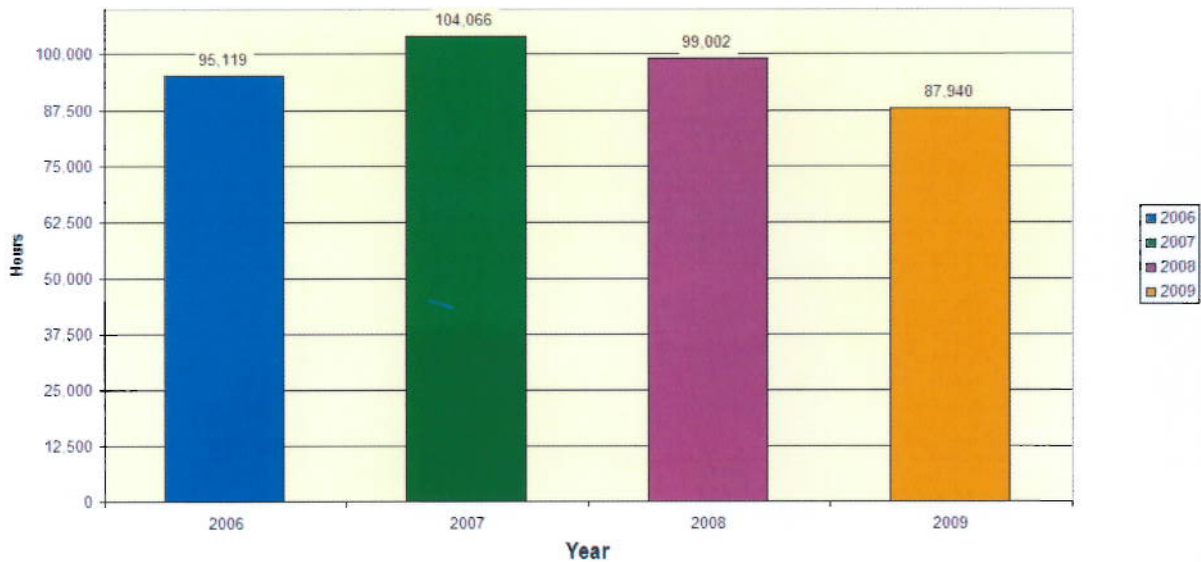


Chart 2

County of Lehigh Overtime Hours



County Of Lehigh
2009 Overtime

Chart 3

Top 5 Overtime Cost by Department/Office/Bureau

Top 5 - by D.O.B						
D.O.B. Department	2009 O/T Pay	2009 O/T hrs	2008 O/T Pay	2008 O/T hrs	% Change Pay	% Change Hrs
080100 Prison	\$ 1,217,805.00	35,069.20	\$ 1,211,753.00	36,708.40	0%	-4%
070101 CB-Nursing	611,067.10	21,072.20	669,258.50	25,724.00	-9%	-18%
070201 FH-Nursing	203,250.50	7,213.25	217,213.50	8,463.50	-6%	-15%
080200 Juvenile Services	132,585.60	4,119.25	206,812.60	6,913.25	-36%	-40%
080600 Mens Com. Corr.	104,297.70	2,664.75	101,771.80	2,774.25	2%	-4%

All but one of the departments in the top five of overtime costs reduced costs or kept costs the same from 2008 to 2009. All departments in the top five reduced hours from 2008 to 2009.

Chart 4

Number of Employees Receiving more than \$10,000 in Overtime					
2004	2005	2006	2007	2008	2009
19	41	45	57	57	51

The number of employees receiving more than \$10,000 in overtime was reduced by six from 2008 to 2009.

Chart 5

Cedarbrook Nursing Homes							
Cost of Contract Labor 2006 to 2009							
	2006 Actual	06-07 Percent Change	2007 Actual	07-08 Percent Change	2008 Actual	08-09 Percent Change	2009 Actual
Cedarbrook Allentown	\$ 241,368.00	76%	\$ 424,311.00	-19%	\$ 342,081.13	-30%	\$ 240,078.25
Cedarbrook Fountain Hill	\$ 381,720.00	-1%	\$ 378,563.00	40%	\$ 530,447.40	-34%	\$ 350,396.02
Total	\$ 623,088.00	29%	\$ 802,874.00	9%	\$ 872,528.53	-32%	\$ 590,474.27

The total cost of contract labor at Cedarbrook Nursing homes decreased by 32% from 2008 to 2009.

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 4 employees to a total of 35 as of December 31, 2009. This is a 1% decrease from 2008. Excluding hazardous materials employees, there was one employee who had not been paid in 12 months. There are 17 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 "County of Lehigh Personnel Policies and Procedures Manual" encourages annual performance evaluations for employees. Currently, Human Resources management does not require annual performance evaluations for employees not eligible for a merit increase.

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 2010, no employee had more than 35 full vacation days.

Compensatory Time Accumulation

Compensatory time is time earned that can be used in one of two 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 6 non-bargaining unit employees who exceeded 80 hours of compensatory time accumulation. Human Resources management allowed the compensatory time balance to exceed the count limits for some employees at the request of the District Attorney.

Chart 6

Department	Number of Employees Who Exceeded 80 hours of Compensatory Time
District Attorney	5
Coroner	1

County of Lehigh
Short-Term Sick Time

Short-Term Sick Time- Episode Analysis

Of the 214 employees who used 10 or more short term sick days in 2009, our testing found that 92% of sick time use, was used in increments of two 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.

Again, it appears the majority of employees who use 10 or more sick days per year take them in increments of two days or less to avoid the need to provide a doctor's excuse.

Chart 7
Number of Days per Episode

1 Days	2 Days	3 Days	4 Days	5 Days	6 + Days	Total # of Episodes
2025	504	106	58	36	32	2761

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 affecting their monthly pension payment amount. Cedarbrook nursing home retirees are allowed 750 hours if they work in nursing, security or therapeutic recreation. All employees who exceeded these allowable hour amounts had properly authorized 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
Exempt Employees

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.



COUNTY OF LEHIGH
Department of Administration

Thomas S. Muller
Director

TO: Thomas Slonaker
County Controller

FROM: Thomas S. Muller
Director of Administration

DATE: April 7, 2010

RE: Internal Audit of Year-end Payroll

As you know, I have not provided any formal response to the past two annual Payroll Audits because I would essentially be making the same points made three years ago since the same factors have remained in play. However, no response also fails to acknowledge the very professional and cooperative effort on Tony Rapp's part and I don't want that oversight to go another year.

Regarding the specific points raised in the audit, the Administration response is as follows:

1. **Overtime:** While we are pleased with the "positive" trends for both overtime expenses and the use of agency nursing personnel, we'd be remiss if we didn't acknowledge that the trend could shift. We examine all overtime carefully, in part to determine if we have any long-term staffing issues, but the proper management of our two 24-7-365 operations (Cedarbrook and the prison) is a constant weighing of the cost of overtime versus alternative solutions (added or "rented" staff) and the needs are pushed by bargaining unit entitlements, mandated staffing minimums and talent availability.
2. **Inactive Employees:** Tony Rapp has indicated that the list of "inactive" employees has already dropped since the audit and I think it's important to put on the record that the risk that has been pointed out (fraudulent payroll payments) is theoretical and has not occurred. That said, HR will continue to take people off the list who are not expected to return in the relatively near term; several on the current list are expected to return.
3. **Performance Evaluations:** Admittedly, annual reviews haven't been performed for many employees who are not eligible for a "merit" increase. We do, however, take a very aggressive posture with any weak performers including full documentation, and have consistently weeded out any who could not be brought up to an acceptable performance level.

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4. **Vacation Day Accumulation:** We are pleased that our efforts to reduce accumulated vacation time have paid off.
5. **Compensatory Time Accumulation:** All six on the list with 80 or more hours of accumulated “comp” time fall under the direction of elected officials—five in the District Attorney’s office and one in the Coroner’s office. Those offices have been extremely cooperative in working down vacation accruals and attempting to limit “comp” time, but they are also dealing with an unpredictable demand for services.
6. **Short-term Sick Days:** The Administration is not pleased with the fact that 214 employees had 10 or more short-term sick days during the year, particularly with almost half being in Human Services, but, as I’ve pointed out before, most are staying within the “entitlements” of their union contracts. The Administration has had a good track record of reducing the number of eligible sick days for new hires and pushed hard (and mostly unsuccessfully) for reductions from our longer-term employees. That effort will continue as we negotiate contracts this year and we are taking a very close look at the situation in Human Services.
7. **P-T Employees/Retirees:** This is another area where it is pleasing to note that the goals have been met.
8. **Exempt Employees:** As you should know, the designation of “Exempt” employees was a difficult task just accomplished by HR this past year and we are still working through some of the nuances. However, there will be some limited situations where exceptions need to be made in the best interests of the County.

Again, it’s a pleasure to recognize Tony Rapp’s efforts and the fact that progress has been made within the framework of our various bargaining unit agreements.



TSM:sld

cc: J. Falk
A. Rapp
M. J. Johnston
B. Kahler