




OFFICE OF THE CONTROLLER

Mark Pinsley, MBA Thomas Grogan, CPA
COUNTY CONTROLLER DEPUTY CONTROLLER

TO: Final Distribution
FROM: Mark Pinsley, County Controller 
DATE: September 16, 2020
RE: Performance Audit of Year-End Payroll - Executive Summary

We have completed our performance audit of year-end payroll for the year 2019. Our report numbers 20-11 is attached. We wish to thank the Office of Human Resources, Office of Information Technology, and Office of Fiscal Affairs for their cooperation during the audit.

County management has continued to make improvements to address the issues raised in our annual year-end payroll report. Other areas, detailed in the attached report, remain open for discussion and continued improvement.

1. Regular payroll dollars, overtime hours, and overtime payments increased by 3%, 19%, and 20% from 2018, respectively.
2. Cedarbrook purchased personnel costs increased by \$83,390, or 12% from 2018.
3. There were thirty-four (34) employees who worked greater than 520 hours of overtime for a cost of \$988,375. Five (5) of these employees worked in excess of 1,000 overtime hours.
4. Future union contract negotiations should focus on limiting the amount of overtime any one employee is allowed to accrue each year.
5. Step movements were reintroduced for non-union county employees in the 2019 budget.
6. During 2019, standard employee performance evaluations were not required.
7. Unemployment (UE) compensation payments to active employees totaled \$28,439, which represents a significant decrease from 2018. Management should be commended for their efforts.

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

AUDITS/YEAR END PAYROLL



COUNTY OF LEHIGH, PENNSYLVANIA
YEAR-END PAYROLL

*Performance Audit of Year-End Payroll
For the Year 2019*

COUNTY OF LEHIGH, PENNSYLVANIA
YEAR-END PAYROLL

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OFFICE OF THE CONTROLLER

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COUNTY CONTROLLER DEPUTY CONTROLLER

Edward Hozza, Jr., Director of Administration
Lehigh County Government Center
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We have recently completed a performance audit of year-end payroll for the year 2019. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we evaluate and determine that staff performing the audit are independent per the generally accepted government auditing standards for internal auditors. Those standards also 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 2019. 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 focuses on both internal management and external requirements:

Internal Management

The first objective of the audit was to compile reports and evaluate internal management of: employee pay increases, bi-weekly payroll processing including longevity payments, county-wide overtime payments and purchased personnel (at the nursing homes), on-call reporting, compensatory time reporting, retirees working over 750 hours, part-time employees exceeding 1,000 hours, short-term sick leave accumulation, vacation day accumulation, inactive employees, annual performance evaluations, and other various payroll deductions. We also performed limited testing in other areas including manual payroll checks issued in 2019, payments made to elected officials, and verifying the validity of employee social security numbers.

Audit criteria and standards included compliance with *County of Lehigh Personnel Policies and Procedures*. We also compared 2019 activity to prior period's performance. Audit standards applied in performing the audit included generally accepted government auditing standards, and *Government Auditing Standards* 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 provides a reasonable basis for our findings and conclusions based on our audit objectives. 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 and such auditing procedures we considered necessary in the circumstances. The key audit results relating to internal management are as follows:

1. Overtime and Regular Wage Payments

- The County of Lehigh, during the calendar year 2019, experienced an increase in overtime hours (19%) and costs (20%), but only a (3%) increase in regular payroll wages. Overtime hours, overtime cost, and regular payroll costs for the last four years are:

Year	2016	2017	2018	2019
Overtime Hours	80,211	86,146	98,623	117,666
Overtime Dollars	\$2,867,947	\$3,125,241	\$3,652,188	\$4,365,904
Regular Payroll Dollars	\$106,935,480	\$110,005,893	\$111,240,229	\$114,684,677

- The top 5 department-office-bureaus (DOBs) overtime dollars and hours are as follows:

DOB	2018 O/T Pay	2019 O/T Pay	% Change In Pay	2018 O/T Hours	2019 O/T Hours	% Change In Hours
CB – AL – Nursing	\$1,181,841	\$1,283,482	9%	33,562	36,730	9%
Jail	\$1,137,273	\$1,235,071	9%	29,074	31,658	9%
Communication Ctr.	\$224,512	\$604,176	169%	6,045	15,847	162%
CB – FH – Nursing	\$470,800	\$562,690	20%	14,150	16,631	18%
Corrections Center	\$114,547	\$142,108	24%	2,586	3,209	24%

- The same 5 department-office-bureaus (DOBs) regular payroll dollars are as follows:

DOB	* 2018 Regular Pay	* 2019 Regular Pay	% Change In Pay	* 2018 Regular Hours	* 2019 Regular Hours	% Change In Hours
CB – AL – Nursing	\$20,400,095	\$20,661,729	1%	901,128	886,401	<2>%
Jail	\$13,108,339	\$12,941,005	<1>%	494,613	487,278	<1>%
CB – FH – Nursing	\$8,347,531	\$8,039,681	<4>%	368,428	352,253	<4>%
Communication Ctr.	\$2,076,974	\$3,395,238	63%	82,275	133,486	62%
Corrections Center	\$1,099,495	\$1,190,495	8%	40,997	43,376	6%

- The same 5 department-office-bureaus (DOBs) combined regular and overtime payroll dollars are as follows:

DOB	* 2018 Combined Pay	* 2019 Combined Pay	% Change In Pay	* 2018 Combined Hours	* 2019 Combined Hours	% Change In Hours
CB – AL – Nursing	\$21,581,936	\$21,945,211	2%	934,690	923,131	<1>%
Jail	\$14,245,612	\$14,176,076	0%	523,687	518,936	<1>%
CB – FH – Nursing	\$8,818,330	\$8,602,371	<2>%	382,578	368,883	<4>%
Communication Ctr.	\$2,301,486	\$3,999,414	74%	88,320	149,333	69%
Corrections Center	\$1,214,042	\$1,332,603	10%	43,582	46,585	7%

- Analysis shows that the top five (5) DOBs are, for the most part, locations with 24-hour operations.
 - The most notable increase amongst these departments was by the Communication Center. This was largely due to a state mandated consolidation between Lehigh County’s Communication Center and the Allentown City Communication Center. As a result of the consolidation, the number of employees who were paid overtime increased by 68% from 41 in 2018 to 69 in 2019.
 - Reduction of overtime costs may be possible by scheduling sufficient additional coverage where known absences occur (24/7 operations) to minimize the need for overtime.
 - Analysis shows that the highest overtime earning employee in 2019 worked in the Corrections Department, and received \$62,501 and 1,385 in overtime payments and hours, respectively. The highest overtime earning employee in 2018 was the same employee within the Corrections Department, who received \$59,835 and 1,326 in overtime payments and hours, respectively.

** Corrections Management noted that employee overtime is reviewed, but is in part based on seniority and governed by collective bargaining agreements. Furthermore, the hiring of corrections officers has been difficult, due to an increasingly competitive employment market, compared to prior years. Management also took measures to close a housing unit, due to decreasing inmate populations, but were constrained by minimum staffing requirements and unforeseen operational needs, such as inmate hospitalizations. **

Please refer to the *Schedule of Audit Findings and Recommendations – Finding #1*.

2. Cedarbrook’s Purchased Personnel (outside contractors)

- Cedarbrook’s purchased personnel (predominantly contract nursing) for the calendar year 2019 cost \$755,852. This represents a \$83,390 (12%) increase from 2018.

Year:	2016	2017	2018	2019
Allentown	\$389,176	\$261,666	\$416,706	\$576,275
Fountain Hill	\$193,975	\$216,952	\$255,756	\$179,577
Total	\$583,151	\$478,618	\$672,462	\$755,852

- The combined total increase of both overtime and purchased personnel at both Cedarbrook locations for 2019 could be a result of:
 - An increase in the medical needs of Cedarbrook residents; and
 - Difficulties in retaining employees and filling vacant positions.
- All of the Purchased Personnel vendor contracts were renewed in September 2019 with one-year terms. Most of these contracts have increased the rates for purchased personnel which will most likely impact the amount spent on this resource.

Please refer to the *Schedule of Audit Findings and Recommendations – Finding #1*.

3. Part-Time Employees Exceeding 1,000 Hours

- Audit testing revealed eight (8) instances of part-time employees exceeding 1,000 hours worked; two (2) of whom were retirees working part-time.
- Employees who work over 1,000 hours are required to participate in the county pension plan, according to The Lehigh County Employee’s Retirement System. This issue will be reported to the Pension Board and to the Retirement Fund Actuaries (Korn Ferry).

Please refer to the *Schedule of Audit Findings and Recommendations – Finding #2*.

4. Employee Pay Increases

- Auditing software, Audit Control Language (ACL), was used to test all twenty-six (26) biweekly payroll entries made into the KEA personnel system during calendar year 2019.
- In years past, increases were only given to employees that were governed by a Collective Bargaining Agreement, leaving non-union employees to receive a small cost of living increase. However, as a part of the 2019 budget, step increases were approved for the first time in nearly ten (10) years. Therefore, nearly all employees received a step increase in the first pay of 2019. Satisfactory performance reviews were not required for these increases.

5. Short-Term Sick Leave

- There were eighty-one (81) employees who used ten (10) or more days of short-term disability time in 2019; this was a 16% decrease when compared to ninety-six (96) employees in 2018.
- Of these employees, 96% of the sick leave taken was done so in episodes of two (2) days or fewer. No doctor’s excuse is required until an employee takes three consecutive days off.
- Using 2019 sick time data, we compiled the number of sick “episodes.” We defined an episode as the following:
 - Any full or partial sick day from work as scheduled was defined as an episode;
 - Any consecutive number of sick days was defined as one episode; and
 - Non-consecutive absences were considered separate episodes.
- The Office of Children and Youth Services (OCYS) had the highest number (443) of the above episodes (38%) of sick leave time.

Number of Days per Episode – 2019							
	1 Day or Less	2 Days	3 Days	4 Days	5 Days	6 + Days	Total # of Episodes
Number of Episodes:	949	183	24	8	3	8	1,175
Percentage of Total: (rounded)	81%	15%	2%	1%	0%	1%	100%

Please refer to the *Schedule of Audit Findings and Recommendations – Finding #3*.

6. On-call Compensation

- Multiple departments were selected for testing of their on-call process. Testing was not performed on two (2) of the three (3) departments selected, as there were mandatory closures of County departments due to **COVID-19**. Audit testing that was performed, however did not reveal any inconsistencies between department policies and on-call compensation.

7. Compensatory Time Accumulation

- Compensatory time balances for thirty-one (31) employees (comprised of both union and non-union employees) exceeded the limit set forth by management in the Lehigh County Policies and Procedures Manual or the employee's respective union contract if applicable. The cumulative overage of compensatory time for the thirty-one (31) employees is 1,265 hours.
- There were three (3) Exempt employees who were over the comp time limit, two (2) of which accumulated their excessive comp balances prior to being promoted to an Exempt position. The third Exempt employee received authorization from Human Resources and their department head prior to accruing 100 comp hours during 2019.
- Compensatory time could be reduced by mandating employees to use compensatory time accrued prior to using vacation time or any other form of PTO where possible.

Please refer to the *Schedule of Audit Findings and Recommendations – Finding #4*.

8. Performance Evaluations

- Performance evaluations are not being completed annually. A random sample of 27 employees were tested for annual performance evaluations; six (6) of the 27 employees were disqualified due to being elected officials or new hires in 2019. Of the remaining 21 employees, only six (6) of them received evaluations in 2019. Many departments do not complete these evaluations because performance evaluations are not required by management and because there is no incentive for them to be completed (i.e. merit increases, step increases, etc.).

Please refer to the *Schedule of Audit Findings and Recommendations – Finding #5*.

9. Vacation Day Accumulation Testing

- All employees with more than 35 vacation days at year-end were manually adjusted back down to 35 days, except for one (1) employee who retired on January 3, 2020 and was paid fully for their 39 accrued vacation days by Human Resources without adjustment.

10. Retirees Working Part-Time Over 750 Hours

- Audit testing revealed only six (6) of the 15 sampled retired part-time employees received written authorization to work greater than 750 hours. Also, two (2) of these employees exceeded the 1,000-hour limit set by management. This represents a noncompliance of county policy by the office of Human Resources.

Please refer to the *Schedule of Audit Findings and Recommendations – Finding #6*.

11. Inactive Employees

- There was a total of nine (9) employees that were active in the personnel system but had not received a paycheck in calendar year 2019. Of these nine (9) employees, four (4) were associated with the Hazardous Materials Unit (Hazmat) – Hazmat employees are kept active to facilitate payroll payments when incidents occur. The remaining five (5) inactive employees’ department heads were notified, of which two (2) were confirmed inactive and removed by their respective departments.

External Requirements

The objective of the external requirement portion of the audit was to measure compliance with established federal and state procedures and regulations for various reports including, among others, quarterly payroll tax return filings, W-2 (employee wage) reporting, Form I-9 compliance, unemployment compensation payments, and reporting requirements associated with the Affordable Care Act.

The results of our testing disclosed no material instances of non-compliance for external reporting in 2019; we noted a management issue in the previous audit that was addressed by county management and is reflected in the data below:


1. Unemployment Compensation to Active Employees:

- Unemployment compensation (UC) was paid in the amount of 28,439 to eighteen (18) active employees. UC payments are down \$39,843 from 2018, and the number of active employees receiving UC is down five (5) employees from 2018. Please see the table below that breaks down the number of active employees and total UC payments by office and year.
- UC payments could be avoided by limiting the hours worked, per week, of part-time employees and by scheduling hours throughout the year.
- UC payments were paid to active part-time employees who were placed on light duty or exceeded the 1,000-hour limit. No exceptions noted.
- Human Resources and Cedarbrook should be commended for their efforts to reduce unemployment compensation to active employees.

Office	# of Employees in 2018	# of Employees in 2019	Total Payment in 2018	Total Payment in 2019
Cedarbrook Nursing: Allentown	10	7	\$29,602	\$11,938
Cedarbrook Nursing: Fountain Hill	7	4	\$17,524	\$8,289
All Others	6	7	\$21,156	\$8,212
Total	23	18	\$68,282	\$28,439

The Controller's Office would like to commend the County Administration on the improvements outlined in the "*Schedule of Audit Findings and Recommendations*". We wish to thank the Office of Human Resources, Office of Information Technology, and Office of Fiscal Affairs for their cooperation during the audit.

This report is intended for the information and use of the Department 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, Thomas Grogan, or me.



MARK PINSLEY
County Controller

August 26, 2020
Allentown, Pennsylvania

Audited by: Nanton John, Daniel Aquilino, and Nicholas Boyle (Intern)

Final Distribution:

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Thomas Caffrey, County Solicitor
Andrea Naugle, Clerk of Judicial Records
Marc Redding, Human Resources Director
Timothy Reeves, Fiscal Officer
The Honorable Edward Reibman, President Judge
Kerry Turtzo, Court Administrator

COUNTY OF LEHIGH, PENNSYLVANIA
2019 YEAR-END PAYROLL AUDIT

Schedule of Audit Findings and Recommendations

1. Overtime and Purchased Personnel

1. **Condition:** Countywide overtime hours and payments increased by 19,043 (19%) and \$713,716 (20%) from 2018, respectively. Additionally, there were thirty-four (34) employees who worked more than 520 hours of overtime, compared to eighteen (18) employees in 2018. Of these thirty-four (34) employees, five (5) were employees who worked over 1,000 overtime hours, one (1) of whom earned the highest overtime pay in both 2018 and 2019 in the county. Large overtime payments will increase county pension obligations for employees who accumulate excessive overtime balances. There was a significant increase in overtime pay, overtime hours, regular pay, and regular hours due to a state mandated consolidation of the Lehigh County Communication Center and the Allentown City Communication Center.

Furthermore, purchased personnel expenses at Cedarbrook increased \$83,390 (12%) from 2018. The combined total increase of both overtime and purchased personnel at Cedarbrook was almost \$277,000. Conversely though, regular payroll payments at both Cedarbrook locations, excluding overtime, decreased from \$28,747,626 in 2018 to \$28,701,410 in 2019.

Recommendation: Management should continue to analyze the cost/benefit of paying overtime and/or purchased personnel expenses versus hiring additional employees at locations with 24-hour operations. The cost of purchased personnel needs to be monitored as vendor contracts renewed in September, 2019, largely resulted in increased cost of purchased personnel rates. Consideration also needs to be made during contract negotiations in regards to limiting the amount of overtime an employee is allowed to accrue, in any one period.

2. Part-time Employees Working More Than 1,000 Hours

Condition: There were eight (8) instances in which part-time employees worked more than 1,000 hours during their respective, rolling year of employment. Moreover, two (2) of these employees were retirees working part-time hours.

Recommendation: Management should adopt an hour limit that is less than 1,000 hours (i.e. 950 hours) to safeguard against violations of the "County Pension Law." If possible, there should be an extra layer of control added by IT that both alerts management when employees are nearing their limit and prevents them from earning more than the established limit. Any employee who violates their limit, according to The Lehigh County Employee's Retirement System, will be subject to reporting to the County Pension Board, as well as the Retirement Fund Actuaries (Korn Ferry).

3. Sick Time Abuse

Condition: Many of the eighty-one (81) employees who took 10 or more sick days in 2019 avoided needing a doctor's excuse by limiting their absence to two (2) or fewer consecutive days.

Recommendation: Consideration should be given to provide employees with paid-time-off (PTO) balances, as opposed to defined sick time balances. Management should continue to reduce the number of sick days allotted to both non-union and union personnel.

4. Compensatory Time Accumulation

Condition: Compensatory time balances for thirty-one (31) employees (comprised of both union and non-union employees) exceeded the limits set forth by management.

Recommendation: Consideration should be given to allow for the advanced payment of accumulated compensatory balances which exceed respective limits set forth by the Lehigh County Policies and Procedures Manual or the employee's respective union contract. Also, management should mandate employees who exceed their respective limits, use their comp time hours before any other form of PTO where possible.

5. Inadequate Performance Appraisal System

Condition: Detailed audit testing has revealed that the County of Lehigh lacks a comprehensive policy to evaluate and track employee performance. Since the evaluations are no longer required to support merit or step increases, many department heads do not do employee evaluations.

Recommendation: The County of Lehigh should adopt a process to measure employee performance. Periodic employee evaluations should be linked to employee compensation.

6. Retirees Working Part-Time Over 750 Hours

Condition: There were twenty-seven (27) retirees working part-time hours who exceeded the 750-hour threshold set forth by management. Written approval from the County Executive is required for part-time employees exceeding the 750-hour limit. Detailed audit testing revealed only six (6) of the fifteen (15) tested retirees had an authorization letter on file. This is a noncompliance of county policy.

Recommendation: Management needs to commit to the close monitoring of retirees working part-time hours. Human Resources should work with IT to create a formal process for notification and authorization of any part-time retiree working in excess of the 750-hour limit.



COUNTY OF LEHIGH
Department of Administration

Edward D. Hozza, Jr.
Director of Administration

TO: Mark Pinsley, Controller
Thomas Grogan, Deputy Controller

FROM: Edward D. Hozza, Jr., Director of Administration

DATE: August 25, 2020

RE: 2019 Performance Audit of Year-End Payroll

I have had the opportunity to review the draft of Performance Audit for Year-End Payroll for 2019. I appreciate both the depth of your investigation and clarity of your report. Some of your recommendation are already being implemented. However, some other of your recommendations are difficult to implement in certain County offices governed by collective bargaining agreements.

My findings are as follows:

1. **Overtime and Purchased Personnel**

Finding# 1 - Excessive overtime -Once again 2019 proved to be a challenging year for recruitment in corrections and Cedarbrook. There have been successful recruitment efforts at both facilities to fill vacant positions. Costs were managed within the respective budgets.

2. **Part-time Employees Working More than 1,000 Hours**

Finding# 2 - Part-time employees exceeding 1,000-hour yearly limit- Notification has been provided to the respective Departments to monitor the 1000-hour directive. HR will continue to notify when approaching the 1000 hours. In addition, this information is included in each payroll report.

3. **Sick Time Abuse**

Finding# 3 -Sick Time Abuse- Sick leave is monitored in each of the Departments. Any changes to the policy will require negotiations with each of the bargaining units.

4. **Compensatory Time Accumulation**

Finding# 4 - Compensatory Time- Discussions have taken place with all the areas affected and the Department Heads and/or Row Officers have indicated they will monitor closely and will work to bring

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down the numbers. They will also try to make sure that their employees use the comp time hours before other PTO.

5. Inadequate Performance Appraisal System

Finding# 5 - Performance Evaluations- The Human Resource Department will be evaluating our current Performance Evaluation protocol and then decide upon the future direction of Performance Evaluations in Lehigh County.

6. Retirees Working Part-Time Over 750 Hours

Finding# 6 - Retiree working part-time employees exceeding 750-hour yearly limit- Notification has been provided to the respective Departments to monitor the 750-hour directive to retired part-time employees. HR will continue to notify when approaching the 750 hours. In addition, this information is included in each payroll report.