Audit Report

HUMAN RESOURCES’ TERMINATION PROCESS

As of September 2004

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Office of the Controller
County of Northampton
Pennsylvania
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Members of the Northampton County Council
Glenn F. Reibman, County Executive
County of Northampton, Pennsylvania

We have completed an audit of the Human Resource Department’s Termination Process as of September 2004.

The Executive Summary on page 1 summarizes the audit results and identifies opportunities for improvement, while the Audit Results section provides a detailed explanation.

We acknowledge the cooperation and assistance we received from the Human Resources Department. Their help was essential to the performance of this audit.

Our report was discussed with management at our exit conference on February 24, 2005. Management’s response is included in the detailed audit report.

Very truly yours,

John T. Schimmel, P.A.             Lynn Dicker, CPA, CIA
County Controller                      Lead Auditor
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EXECUTIVE SUMMARY - OPPORTUNITIES FOR IMPROVEMENT

Audit Results

In our audit we identified various steps the County could take to make the termination process more efficient and effective. (Audit Result 1, Page 4) The County could cancel benefits (Audit Result 3, Page 6) and disable ID badges of terminating employees (Audit Result 4, Page 8) in a timelier manner and make Personnel Policies and Procedures more pertinent (Audit Result 2, Page 5) by:

- Documenting the termination process.
- Establishing termination procedures.
- Assigning responsibility for them.
- Communicating with all involved in the process.
- Instituting the use of termination checklists.
- Making forms such as the Personnel Action Notification, Voluntary Termination, Termination Checklist, and Exit Interview Questionnaire available on-line.

The County could also make the process more economical by allowing only lump sum payouts of unused leave time. (Audit Result 5, Page 9)
INTRODUCTION

Administrative Code Article XIX established the Department of Human Resources (HR). A Director, who is appointed by and responsible to the County Executive, heads the Department. The Director, either in person or through subordinates, is responsible for administering a comprehensive personnel system for all County employees. Among the functions performed by HR are:

- Filling job vacancies as needed by posting the vacancy and administering testing procedures when needed.
- Providing training programs.
- Distributing benefit information.
- Administering fringe and pension benefits.
- Negotiating and enforcing union contracts.
- Handling employee disputes and discipline through mediation and grievance procedures.
- *Handling the termination process including the cancellation of benefits.*
- Creating new positions and evaluating qualifications and job tasks of current positions.
- Enforcing all Federal and State employment laws including unemployment, workers' compensation, and equal employment opportunity.

The Department currently has 10 full-time employees and one volunteer part-time employee.
PURPOSE AND SCOPE

The purpose of the audit was:

- To determine the adequacy of internal controls over the termination process.
- To determine compliance with policies and procedures.
- To determine the economy and efficiency of the termination process.

The scope of the audit was limited to the employee termination process, with tests conducted on terminations occurring from January 1, 2004 through September 30, 2004.

Our tests were conducted on data extracted from the Lawson system (the software used to maintain all employee information). This data was then tested and verified to source documents ensuring its reliability.

METHODOLOGY

Our methodology included:

- Interviewing personnel to document the various processes and procedures.
- Identifying and assessing controls over the termination process.
- Determining applicable policies, procedures, laws and regulations.
- Testing transactions for compliance with policies and procedures.
- Testing transactions for compliance with internal controls.
- Testing the economy and efficiency of procedures.
- Using the Internet for benchmarking and determining best practices.

This audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States.
AUDIT RESULTS

1. The Termination Process Is Not Documented

OBSERVATION

The termination process is not documented. Termination checklists are only used at Gracedale, the Voluntary Termination Form is not used consistently, exit interviews are not always conducted, and forwarding addresses are not always obtained.

Termination checklists help to ensure that crucial steps such as canceling benefits, disabling network access, and retrieving ID badges are not forgotten. The Voluntary Termination Form protects the County legally in the event of a lawsuit from an ex-employee. Exit interviews help to identify problem areas or circumstances that need to be addressed. Forwarding addresses are often needed to send pension distributions and W-2 tax forms to the terminated employee.

RECOMMENDATION

Management should establish termination procedures and communicate them to all involved. Management should also institute the use of a termination checklist that incorporates all the steps of the process. This would document the attempt to complete all the steps should the employee refuse to comply. Management should also consider making all forms available on-line.

MANAGEMENT RESPONSE

Lorraine Cordaro, Deputy Director of Human Resources

Human Resources acknowledges the need for communication and education in this area. We are in the planning stages of putting together a joint Human Resource/Payroll training session for Supervisors. Our intent is to re-educate Supervisors on proper completion of the PAN (Personnel Action Notification) and the internal process that goes along with it. Once our new Kronos payroll system is fully implemented, we will begin this training. The Kronos system incorporates some new pay codes, which we will integrate in this training.

Human Resources is currently working with ACS to put HR related forms/information on the County wide entra-net.
2. The Personnel Policies And Procedures Manual Is Outdated

**OBSERVATION**

Personnel Policies and Procedures do not adequately address many termination issues and sometimes provide information that is incorrect or that varies from current practice. For example:

- Terminating employees are removed from medical, dental and prescription coverage as of the last day of the month of termination. However, Personnel Policies and Procedures state in Section 3.301 that “Any employee who terminates employment…will be terminated from the County hospitalization coverage effective his/her last day paid”.

- Personnel Policies and Procedures do not specify how unused vacation and personal holiday time is to be paid out to terminating employees, i.e. in a lump sum or run out as if continuing to work.

Personnel Policies and Procedures have not been updated as changes to the termination process occurred.

**RECOMMENDATION**

Management should revise Personnel Policies and Procedures to reflect current conditions and practices.

**MANAGEMENT RESPONSE**

Lorraine Cordaro, Deputy Director of Human Resources

The Personnel Policy and Procedure Manual is currently being revised to reflect current practices. This issue has been addressed.
3. Benefit Cancellation Is Not Timely

**OBSERVATION**

The cancellation of medical, prescription and dental benefits was not timely. On our test of 25 terminated employees, 76% were listed as active on medical and prescription benefits for an average of 1.54 months beyond the prescribed cancellation date. With dental benefits, 40% of the test subjects were listed as active for an average of .68 months beyond the cancellation date.

Medical and dental benefits, under current practice, should be cancelled as of the last day of the month of termination. Cancellation is done using a monthly termination report generated by the Lawson system and transmitted to benefit administrators.

The delay in cancellation may be a result of:

- Delay in the HR department. We performed an analysis of the flow of documentation and noted ten instances (of 25) where delay in entering termination information was more than 3 days.
- Delay by the Administrator. Since both medical and dental testing was done with the same sample, we compared the average additional months of coverage for each. For medical, the delay was 1.54 months (with a high of 9 months) and for dental it was .68 months (with a high of 8 months). This suggests that the administrators use different procedures for processing cancellations.
- Delay in the employee’s department of employment. Using the same analysis as described above, we noted eight instances where the department took more than the prescribed 3 days to complete the Personnel Action Notification (PAN) form and forward it to HR.
- A combination of all of the above.

With cancellation delays such as those noted above, the County runs the risk of incurring additional administration costs and benefit costs if the employee continues to use the benefits.
As of January 31, 2005, no benefits were paid after the termination date for any of the full time employees included in our sample of 25.

**RECOMMENDATION**

We recommend that the County shorten the time between the termination date/last pay date and the entry date. This may be accomplished through forms that can be completed, approved, and transmitted on-line and by establishing termination procedures and communicating them to supervisors. We also recommend that the County develop procedures in conjunction with benefit administrators that will ensure complete and timely communication of employee status changes on an ongoing basis. In addition, a full electronic file comparison should be performed periodically to further ensure accuracy of administrators’ member rolls.

**MANAGEMENT RESPONSE**

Lorraine Cordaro, Deputy Director of Human Resources

Human Resources recognizes that Supervisors do not in all instances complete PAN forms in a timely manner. Again, this is an issue to be addressed in the Supervisor Training Session.

As a department, we are certainly willing to investigate the possibility of using an on-line PAN form in order to expedite this process.

Human Resources is currently reviewing our internal process in order to provide a more timely termination notification to our benefit providers.
4. ID Badge Disabling Is Not Timely

**OBSERVATION**

ID badges were not cancelled on a timely basis. Using a sample of 27 terminated employees we found 15 or 56% that were not disabled.

The ID badge system software, administered by the Sheriff’s Department, has not been working properly since October 2004. The Information Services (IS) Department is currently working to resolve the problem. Termination reports are not consistently run and forwarded to the Sheriff’s Department for disabling. Personnel Policies and Procedures do not address the issue.

ID badges should be collected by supervisors and forwarded to the Sheriff’s Department for disabling on the employee’s last day of work. Failing to disable the badges of terminated employees exposes the County to the risk of unauthorized access to government facilities.

**RECOMMENDATION**

As noted previously, the County should establish termination procedures and communicate them to all involved. The Sheriff’s Department should continue working with Information Services to determine why the system is not functioning as it should and correct the problem.

**MANAGEMENT RESPONSE**
Lorraine Cordaro, Deputy Director of Human Resources

It is acknowledged that Supervisors do not regularly collect badges from departing employees. The importance of this will be an item addressed in the Supervisor Training Session. It is important to note that even if a badge is not collected, it can be disabled based on an email from Human Resources to the Sheriff’s office. This is done when management initiates a termination, and the Sheriff’s office acts promptly.

Jeff Hawbecker, Sheriff

The County ID badge system is currently up and running.
5. Unused Leave Time Payout Options Are Not Consistently Offered

OBSERVATION

The County does not offer all terminating employees the same options for payment of unused leave time. In some cases, employees are offered the option of taking unused leave time either in a lump sum amount or of running it out as if still employed. In other cases, the employee is not offered an option, but must take the payment as a lump sum.

Personnel Policies and Procedures, in Section 3.306, allow for payout of unused leave time to terminating employees but do not specify how the leave time is to be paid.

We gathered data on how other entities handle this issue from various resources such as the National Association of Local Government Auditors listserve and the Internet for other governmental entities and universities. From a total of 30 references we determined that:

- In 16 cases only lump sum payments are allowed.
- In 9 cases either lump sum payments or running out time is allowed.
- In 5 cases the information was not available.

Employees who run out leave time rather than taking a lump sum payment have the advantage of remaining active on County medical, prescription and dental benefits. This may result in the accrual of additional leave time. It also allows terminated employees to retain benefits until leave time is exhausted, causing the County to incur additional costs for these benefits.

We consulted our attorney, David J. Ceraul on this issue. He recommends that only lump sum payments be allowed. He states that “if an individual is paid in installments, there could be a question as to whether said individual is still technically an employee of the County, thus triggering potential claims that could arise as a result of the normal employee/employer relationship”.

RECOMMENDATION

The County should pay all unused leave time of terminating employees in a lump sum.
 MANAGEMENT RESPONSE  
Lorraine Cordaro, Deputy Director of Human Resources

The current practice is to allow all employees, departing the County under favorable conditions, the choice of running their time out or a lump sum payment. In the case of a County initiated termination, and or resignation in lieu of termination, the employee is paid in lump sum.

Human Resources agrees that allowing employees to run their time out may be more costly.

The suggestion of changing this policy to lump sum payments only, is currently being reviewed by the Solicitors Office.