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Audit Report

**PUBLIC WORKS  
TIMEKEEPING**

As of August 2014

**Office of the Controller  
County of Northampton  
Pennsylvania**



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March 6, 2015

Members of the Northampton County Council  
John A. Brown, County Executive  
County of Northampton, Pennsylvania

We have completed an audit of the Public Works Timekeeping as of August 2014.

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

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

Our report was discussed with management at our exit conference on February 10, 2015. Management's response is included in the Audit Results section of the report.

Very truly yours,

Stephen J. Barron, Jr., CFE  
County Controller

Kathleen A. Kuzma, MBA, CPA, CGMA  
Lead Auditor

# Table of Contents

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	<u>PAGE</u>
EXECUTIVE SUMMARY .....	1
INTRODUCTION .....	2
PURPOSE AND SCOPE.....	3
METHODOLOGY .....	3
AUDIT RESULTS .....	4
<i><u>Section A - Policies and Procedures</u></i>	
1. Documentation of Policies and Procedures for Processing Department Payroll .....	4
<i><u>Section B – Internal Control</u></i>	
1. Review and Approval of Time Worked .....	6
2. Proper Segregation of Duties in the Payroll Process .....	8
3. Maintaining Current Leave Balances .....	9
<i><u>Benchmarking</u></i> .....	10
<i><u>Exhibit A – Audit Response</u></i> .....	11

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## **EXECUTIVE SUMMARY**

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Significant improvements could be made in the payroll process to improve internal controls in the Department of Public Works. A department policies and procedures manual would be a useful tool to detail what is expected of those involved in the payroll process and hold them accountable for payroll preparation, approval and accuracy. This is especially important at this time given the fact that the Public Works Department has seen people who are involved in the payroll process take extended leaves of absences or retire.

Consistency in payroll processes, adequate segregation of duties, and supervisory approval would provide controls that are needed to achieve the overall goals for the Department's payroll – that employees report accurate time worked, that supervisors review and approve time worked for their employees – resulting in an environment of confidence in the integrity of payments to the employees.

We were unable to reach a conclusion about the overall accuracy of payroll in the Public Works Department due to the lack of adequate documentation, and supervisory review and approval.

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## **INTRODUCTION**

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The Public Works Department is comprised of the following divisions:

- Public Works Administration,
- Bridge Maintenance,
- Parks and Recreation,
- Building Operations and Maintenance, and
- Custodial Services.

Public Works' employees are covered by either the Career Service (CS) Regulations or the AFSCME Residual Non-Professional Unit collective bargaining agreement (CBA).

The Kronos computer system maintains each employee's typical work schedule. Changes to that schedule due to leave time, overtime and special pay situations are entered into Kronos by timekeepers. Once all data entry of exception items has been updated in Kronos, payroll is approved and processed, and paychecks are issued.

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## **PURPOSE AND SCOPE**

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The purpose of the audit was to:

- Determine the adequacy of internal controls in place for the Public Works' payroll process.
- Determine the accuracy of amounts paid to employees for leave time and time worked by agreeing to employee time reports.
- Determine adherence to CBA and CS Regulations with regard to other payments made to employees.

The scope of the audit includes procedures in place as of August 2014. Transactions were tested to ensure payroll information reported by employees and supervisors agreed to payroll as paid through the ERP OneSolution Payroll module during August 2014. Available leave time balances were not verified or tested.

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## **METHODOLOGY**

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Our methodology included:

- Interviewing County personnel involved in the payroll process.
- Identifying applicable policies, procedures, laws and regulations, and testing for compliance.
- Reviewing internal controls.
- Benchmarking with other local governments with similar type operations for their procedures for processing payroll.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards 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.

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## AUDIT RESULTS

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### **Section A - Policies and Procedures**

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#### **1. Documentation of Policies and Procedures for Processing Department Payroll**

##### OBSERVATION

The Department of Public Works does not have internal policies and procedures to explain what is required of each individual involved in the processing of payroll for the various divisions. With no guidance on what is required and necessary for proper processing of payroll, divisions are left to create their own procedures. As a result, each division has a different process for accumulating time worked, verifying and reporting time worked, and record retention of payroll documentation.

Many supervisors have adopted a hands-off approach to payroll, creating segregation of duties concerns with timekeepers who are now performing most of the payroll functions. (The concerns with segregation of duties will be addressed later in the report.) Payroll processing inconsistencies can create an environment that could lead to poor documentation of payroll and errors in payments to employees.

Several areas of concern were noted during the audit:

- There is no policy requiring supervisors be responsible for tracking employee time, reviewing and approving employee time sheets, reviewing and verifying the accuracy of payroll entered by the timekeeper, and approving the final processed payroll via the "Employee Time Report".
- There is no formal policy dealing with disciplinary action for employees abusing their leave time resulting in "no pay" situations. An informal policy does exist but it is not being enforced.
- There is no formal policy on training for new staff and cross-training for supervisors and timekeepers in the event of a planned absence during a pay period.
- There is no policy for the types of records that should be maintained for payroll or for retention of these records. Testing revealed that payroll records were not maintained or retained in a consistent manner throughout all divisions.

### RECOMMENDATION

Public Works management should review all payroll processes in the various divisions and decide on the most efficient and effective manner of processing payroll for the department as a whole. Management should consult with the Payroll Department and Human Resources to ensure all aspects of the payroll process are considered.

These processes should be documented in a department policies and procedures manual. Policies and procedures should be communicated to each individual involved in the payroll process.

### MANAGEMENT RESPONSE

See Exhibit A.

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## **Section B – Internal Controls**

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### **1. Review and Approval of Time Worked**

#### **OBSERVATION**

Some supervisors take an active role in tracking and reviewing employee time worked and others take no responsibility for the payroll process. Time worked by supervisors is not being reviewed by a higher level manager or the Director. The lack of a policies and procedures manual has resulted in each division and its supervisors handling payroll differently.

The Director's approval on the "Employees and Hours by Home" report sent to the Payroll Department for processing pay checks is just a formality and does not substantiate the accuracy of payroll.

Items noted during the audit that would hamper a supervisor's ability to review and approve the time worked for employees they manage include the following:

- Not all employees are required to complete employee time sheets for each pay period.
- Payroll Time Cards (documentation used to update exception items in Kronos) are not maintained for all employees. It was noted that the timekeeper took steps to begin correcting this during the audit.
- The Patrol Scan Swipe system is no longer being used as intended and monitoring reports are no long printed and reviewed.
- Errors were found with the supervisor's leave time tracking calendars and it was discovered that leave time in increments less than 4 hours are not being tracked.

#### **RECOMMENDATION**

Public Works management should review all payroll processes in the various divisions and decide on the most efficient and effective procedures for processing payroll with regard to all aspects of the process paying particular attention to the review and approval procedures. Consulting the responses received from the local governments would be helpful in developing these procedures.

Procedures should be developed that hold supervisors accountable for tracking, reviewing, and approving time worked for the individuals they supervise. A procedure should be developed for the Director to review time worked for those supervisors that have no other management review and approval.

Once the review and approval procedures are developed they should be included in the department's policies and procedures manual.

MANAGEMENT RESPONSE

See Exhibit A.

## **2. Proper Segregation of Duties in the Payroll Process**

### OBSERVATION

Segregation of duties is another key component of a strong internal control system. It is also one of the most effective ways to combat abuse and fraud. Ownership of data, record keeping, approval, and reconciliation functions should be separated among different individuals when devising payroll procedures.

Currently there is no segregation of duties within the payroll process with regard to certain Public Works divisions. Timekeepers are responsible for all aspects of the payroll process such as monitoring employee leave time taken, completing the payroll time cards, and performing data entry in the payroll computer system for generation of paychecks. This is all done without any supervisory review and approval of employee time worked or data entry in the payroll computer system.

### RECOMMENDATION

Public Works management should review all payroll processes in the various divisions to determine how best to segregate the duties between the timekeepers and supervisors to maintain adequate segregation of all functions. This should be documented in the department's policies and procedures manual.

### MANAGEMENT RESPONSE

See Exhibit A.

### **3. Maintaining Current Leave Balances**

#### OBSERVATION

To process payroll accurately, those supervisors responsible for approving and reporting employee leave time to timekeepers should have the most current leave balances to ensure leave time is categorized properly for the timekeeper's data entry into the payroll computer system.

Some supervisors expressed concern about not having access to current leave balances. As a result, leave time for certain employees was improperly categorized on payroll documents given to the timekeeper. This required the timekeeper to make corrections to the pay codes to avoid negative leave balances and employees being paid for time that was not available to them. This creates inefficiencies in the payroll process.

#### RECOMMENDATION

Public Works management should consult with supervisors involved with reviewing and approving employee time worked, and determine how current leave balances can best be made available to these supervisors to ensure payroll data given to the timekeeper is accurate.

#### MANAGEMENT RESPONSE

See Exhibit A.

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## **Benchmarking**

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Surrounding local governments were surveyed about their payroll procedures in departments similar to the County's various Public Works divisions. One city and one county responded to our request. The procedures detailed in these responses were used to benchmark against the payroll procedures of the Northampton County's Public Works Department.

The responses revealed common practices between these two organizations with regard to payroll processing that Public Works may wish to further consider in improving their internal controls in the payroll process. Some of the highlights are as follows:

- Tracking employee's time worked –

Each organization has a process to track time worked for all employees before it is entered into the master payroll computer system by the timekeeper. Tracking methods include such things as a computer shared file for supervisors to accumulate employee time used in verifying employee time sheets, employee timesheets and leave requests used for employees to report their time worked, daily work logs to track work performed by employees, time clocks to track the beginning and end of each day, and payroll time cards which are the documentation used to update the master payroll computer system.

- Supervisory approval of time worked –

Supervisors are responsible for tracking, verifying, and reporting employee time to the timekeeper before time is entered into the master payroll computer system. The supervisor reviews the various documents from the tracking methods used and verifies it to his records. Once the supervisor has approved time worked, he will forward payroll information to the timekeeper. Requests for leave time are approved by supervisors as well.

- Approval of processed payroll –

Once the master payroll computer system has been updated by the timekeeper, payroll activity reports are printed and distributed. These reports are reviewed and approved by the supervisor, who is responsible for payroll accuracy, before payroll is sent to the Director or the Payroll department for the final review and approval. The supervisor utilizes previously reviewed and approved documents that are available from the various tracking methods in verifying the accuracy of the data entry on payroll activity reports.

**Public Works Timekeeping Audit Response:**

Good Afternoon Kathleen – Per your request please note the responses from the Administration and the Department of Public Works:

“The Administration has identified manual timekeeping as a broad issue across each of the departments in the County and is seeking a solution(s) to automate and streamline the time tracking and reporting process.”

Public Works, as a result of the initiative defined above, has ‘broken down’ by department payroll changes reflected by years of requests by the Controller’s Office. Public Works has and will implement further refinements as time and usage progresses.

**Parks:**

Previously: ‘Time’ was given to the park’s secretary, then compiled for review by the foreman then entered into Kronos by the secretary, summary then provided to the PW Director for signature.

New system: The foreman will compile the employees time; time(s) will be given to the secretary who will actively track employee thru Kronos for overtime, accrued days off/vacation/sick days etc. for the Park’s Manager approval.

**Custodian:**

Previously: Time was manually entered into a payroll log by the former manager with little if any interaction with the night time crew leader. Employee time was given to the PW secretary who then entered the numbers into Kronos.

New system: Time is being tracked for the 2 shifts;

1. Day shift has direct reporting to the Custodial Manager, who actively tracks the employee times. The manager then compiles employee hours then gives the pay log to the PW secretary for verification and entry into Kronos. Copies of pay certs are provided to the manager for review and disbursement to employees for their signature.
2. Night shift Crew Leader logs payroll for his crew on form provided by PW Secretary and gives to the manager to validate. Times are given to the PW secretary for verification and entry into Kronos. Copies of pay certs are provided to the manager for review and disbursement to employees for their signature.

**O&M Mechanics:**

Previously: Employee time was given to the PW secretary by the Supervisor who then entered the numbers into Kronos.

New system: Timekeeping will be the responsibility of the Associate Supervisor, that person will actively track employee hours for overtime, and accrued days off/vacation/sick days etc. for Supervisor approval. The times will be forwarded to the PW secretary for verification and entry into Kronos. Copies of pay certs are provided to the manager for review and disbursement to employees for their signature.

**Bridges:** No changes with a crew of 3 including the supervisor hours are tracked then given to the parks secretary for posting, then signature for the supervisor.

Additionally within the department we have instituted three (3) operational tools in the event of vacation or sickness of authorized management to standardize payroll processes.

1. Cross training between the parks secretary and the PW secretary
2. Policy and Procedures manual will be created to identify timekeeping procedures; i.e. call outs, sick days along with the appropriate disciplinary actions. These Policy and Procedures will Supplement the Policies that are in place by the HR Department. Where necessary, we will recommend changes to the HR Policies.
3. Meetings will be held semi-annually with all PW employees initially detailing the Policy and Procedures manual, with subsequent meetings discussing issues as they arise.

Kathleen, please any questions/concerns please feel free to call me anytime.

Respectfully,

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