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Audit Report

**LEAVE TIME LUMP
SUM PAYOUTS**

As of May 31, 2013

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



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July 31, 2014

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

We have completed an audit of Leave Time Lump Sum Payouts as of May 31, 2013.

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 Human Resource (HR), Fiscal Affairs and Payroll Departments. Their help was essential to the performance of this audit.

Our report was discussed with management at our exit conference on June 30, 2014. 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

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EXECUTIVE SUMMARY

We sampled a total of 45 employees with lump sum payout transactions from a total population of 403 employees that terminated between 1/1/2012 through 5/31/2013. Due to the nature of some of the findings, it was difficult to arrive at a net dollar impact to the County.

While our testing revealed that there were no individually material overpayments with leave time lump sum payouts, errors are occurring. If these errors are not addressed and continue to go undetected, they could have a negative financial impact to the County over time.

Improvements could be made to the lump sum payout process if current practices were reviewed and fully documented in the County's Policies and Procedures. Internal controls could be improved if there was a workflow process established which notified all necessary parties and required their review and approval of lump sum payouts.

INTRODUCTION

Eligible employees are able to accrue leave time (vacation, personal and sick) and earn compensatory time in accordance with the County Human Resource policies for Career Service employees or their respective collective bargaining agreement (CBA). Currently, there are 11 CBAs throughout the County.

Upon termination from County employment (through voluntary or involuntary means or retirement), employees that have accrued this time may be entitled to receive lump sum payouts, based on County policies or the terms of their CBAs.

PURPOSE AND SCOPE

The purpose of the audit was to:

- Determine if internal controls are established and are effective with regard to leave time lump sum payouts.
- Determine compliance with County policy and collective bargaining agreements with regard to leave time lump sum payouts.

The scope of the audit includes testing of employees who terminated between January 1, 2012 and May 31, 2013.

METHODOLOGY

Our methodology included:

- Interviewing County personnel in Human Resources, Payroll and Fiscal Affairs to obtain an understanding of the process.
- Identifying applicable policies, procedures, laws and regulations, and testing for compliance.
- Obtaining reports detailing terminated employees and payouts, analyzing the reports using data analysis software, and testing leave time lump sum payouts for propriety.
- Reviewing internal controls.

The Human Resource module of the ERP system calculates and maintains leave time balances for each employee based on formulas (codes) programmed into the computer system for the appropriate leave time policies. These system-generated leave time balances will be relied on for the testing of the lump sum payouts. To assess the reliability of the leave time balances, we spoke with County personnel about data quality control procedures. We determined that these leave time balances maintained in the HR system were sufficiently reliable for the purposes of this report.

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.

AUDIT RESULTS

Section A - Policies and Procedures

1. Complete and Proper Documentation of Policies and Procedures

OBSERVATION

During the course of our testing, we discovered that there were areas for which the calculation and payment of lump sum payouts were based on past practices with no formal documentation in either the written Career Service Policies and Procedures or CBAs. This could result in inconsistent treatment and payment errors of lump sum payouts across the County's workforce.

The following is a list of past practices that are not properly documented in policies and procedures or CBAs discovered during our audit.

- Full-time County employees transferring to part-time County employment are being paid for their leave time in lump sum payouts prior to their transfer at their full-time salary rates.
- Certain part-time employees at Gracedale accrue vacation time. These employees are allowed to request leave time in place of a regular workday or request their accrued vacation allotment be paid in a lump sum payment at any time.
- Gracedale employees with accumulated sick time in excess of the maximum allowed per the current contract have been grandfathered and allowed to retain their full sick leave balance.
- Correction Officers are paid out the compensable time in lump sum payments in December when they have been on Family Medical Leave or Workers Compensation, and are unable to use their accrued leave by the end of a calendar year. In addition, if a Correction Officer is on Workers Compensation and unable to return to work after a 12 month period, they are placed on a leave of absence and paid out all of their accrued time in lump sum payments.
- There is inconsistent treatment of leave time lump sum payout categories with regard to retro pays. Employees that retire under an expired CBA do not have their sick leave payout adjusted upon the ratification of a new CBA when there are changes to the sick leave lump sum payout benefits per HR. In an instance found during testing, an employee that terminated

under the expired CBA was not eligible for lump sum sick leave payouts but had the new CBA been in place would have received a lump sum payout for accumulated sick time.

In addition to policies not being properly documented, our testing revealed that one County policy was not being followed. It was discovered through testing that retirees are being rehired immediately after their last day worked, which contradicts County policy. The Re-employment Policy (Code 3.115) states “Retirees seeking re-employment must have left employment with Northampton County not less than sixty (60) days prior to re-employment and in good standing.”

RECOMMENDATION

The Policies and Procedures Manual as well as the CBAs should be reviewed and compared to actual practices. Any differences between what is actually done and what is documented in the written policies should be reconciled and written policies should be amended accordingly.

MANAGEMENT RESPONSE – Collaborative response

Patricia Siemiontkowski, Director of Human Resources

Human Resources will revise policies and negotiate appropriate language in the collective bargaining agreements to document actual practices.

2. Documentation of Payroll Policies and Procedures

OBSERVATION

There are over 150 pay codes in the Kronos timekeeping system, with each leave category having more than one code depending on the reason for the payout. Each leave time lump sum pay code has its own calculation code to determine how it will be paid and if it affects the leave time accumulators, and is included in the calculation of wages subject to the retirement deduction. Confusion with the different pay codes caused errors in coding various leave time lump sum payouts.

A written and published policy and procedures manual does not exist for Payroll processing. As a result, there is no document that timekeepers can use as a guide in defining the pay codes and when they should be used.

The most common errors found while testing leave time lump sum payouts were as follows:

- Gracedale used one of the lump sum pay codes incorrectly for employees that called in sick, had no sick time available but later provided a doctor's excuse enabling them to be paid for the day using another form of leave time such as vacation or personal leave.
- Retirement wages were improperly increased for lump sum payouts upon termination due to incorrect lump sum payout codes being used. Retirement wages were increased by \$18,730 for those exceptions found during testing.
- The last day worked is not properly monitored by timekeepers, which resulted in timekeepers making coding errors by paying employees for various leave time such as vacation and sick leave after the last day worked. In one instance, this resulted in an employee being paid for sick time even though the employee was not entitled to receive sick leave lump sum payouts upon termination. This resulted in an overpayment to the employee in the amount of \$218.

RECOMMENDATION

Payroll Policies and Procedures should be included in a Fiscal Policies and Procedures Manual and made available to all County timekeepers. The various pay codes should be highlighted with a brief explanation as to how they are to be used. A training session should be held for timekeepers to ensure they understand the various pay codes.

MANAGEMENT RESPONSE

Mary Alice Einfalt, Accounting Manager

There are seven pay codes related to lump sum payouts. A memo was sent to all timekeepers reminding them of the proper use of each of the codes. Additionally, a control report was created in payroll and is run bi-weekly as part of the payroll close process. This report serves as a double check to ensure lump sum payout pay codes are being used properly.

Section B – Internal Controls

1. Deficiencies in the Leave Time Lump Sum Payout Process

OBSERVATION

No workflow process exists in the HR/Payroll computer system for review and approval of terminated employees. As such, key personnel involved with terminated employees are not made aware of a termination and are not able to review the payouts for propriety before the pay checks are processed and employees are paid. As a result, there have been terminated employees that have been improperly paid. It was discovered during testing that there is insufficient monitoring and review of entries made by timekeepers in the payroll system. The supervisor signature on the bi-weekly paycert is inadequate as proof of review of timekeeper entries since all information required for review of terminated employees is not shown on the paycert.

There were several observations made during testing that could result in material errors with regard to lump sum payouts.

- Someone with edit capabilities within the HR system was able to delete a Quick Pay Assignment record in an employee's data file. The Quick Pay Assignment record details salary history for a specific period of time. Missing pay information could affect calculations of leave time lump sum payouts.
- The Kronos warning message for negative leave balances can be ignored and bypassed by the timekeeper resulting in errors or overpayments. There is no formal review process by supervisors with regard to negative leave balances and the negative balances generated each pay period are not reflected on the pay cert that is reviewed and approved by the supervisor. This is further compounded by the fact that HR does not review and verify all leave time balances for each terminated employee before that employee is paid and inactivated in the HR system. Additionally, some CBAs allow their union members to carry certain negative leave balances which compound the complexity of analyzing these negative leave balances.
- Leave balances are not always adjusted to zero upon termination. The practice of inactivating an employee in the HR system often happens before the employee's leave time balances can be reviewed and corrected.
- Gracedale does not properly handle the posting of accrued vacation hours for part-time employees. This creates inaccurate, negative

vacation leave balances when lump sum payouts occur. It is difficult to detect if an employee has been overpaid because employee records are maintained at the Gracedale facility.

- Poor communication between a supervisor and a timekeeper resulted in the timekeeper incorrectly calculating and paying out leave time lump sum payments for an employee that transferred to a different department with the similar terms in the CBA which would have allowed the employee to retain their leave time balances. The total payout amounted to \$2,533.92.

RECOMMENDATION

The leave time lump sum payout process should be reviewed and documented. Policies and Procedures should be documented and include clear instructions on how to handle all aspects of this payroll process including but not limited to accrual of leave time, supervisor review of negative leave balances, and a workflow process with notification to all appropriate departments involved when an employee terminates.

MANAGEMENT RESPONSE

Patricia Siemiontkowski, Director of Human Resources
Mary Alice Einfalt, Accounting Manager

Payroll will review and document the lump sum payout process.

The On-Line PAN, when complete, will be the notification vehicle for the appropriate departments to receive notice of terminated employees.

2. Improvements to the Sick Leave Pay Out Authorization Form

OBSERVATION

Based on a review of the Sick Leave Pay Out Authorization form and discussions with various County personnel, the following was discovered:

- Terminology on the form can be confusing. The sick leave balances are stated in hours per the HR system but CBAs state the sick leave payout benefit in days. The form does not provide for a conversion of days to hours for the calculation.
- The form is due five (5) days prior to the last day worked. Most divisions or departments are not submitting the form in that time frame. Also, having a due date prior to the last worked date could result in errors on the payout if the employee utilizes sick time during the last week of work.
- There is no place on the form to document the salary cap amount and show the comparison between the actual payout calculation based on the accumulated sick time versus the calculated cap to ensure the proper payout was made.
- There was no evidence of supervisory review of the salary cap calculation. Errors were discovered on the form for calculating the salary cap. Fortunately, these salary cap calculation errors did not result in overpayments of sick leave payouts in these instances.

RECOMMENDATION

The sick leave lump sum payout process should be evaluated, the form should be updated to reflect the calculation actually performed and appropriate County personnel should be approving all calculations, especially the salary cap calculation.

MANAGEMENT RESPONSE

Patricia Siemiontkowski, Director of Human Resources

The new Sick Leave Pay Out Authorization Form has been updated to include the following language, which appears above the "Signature of Department Head":

My signature below indicates I have reviewed the attached salary calculation and agree that it is correct.

The new Sick Leave Pay Out Authorization Form has been updated and is available on the intranet.

Section C – Economy and Efficiency

1. Delays in Ratifying Collective Bargaining Agreements

OBSERVATION

During the audit, it was noted that there were delays in ratifying CBAs. Terminated employees often had retro pay adjustments for their leave time lump sum payouts as a result of changes in leave time benefits when the new CBA was ratified. Often this required HR to reactivate the employee to make the necessary pay adjustments. This created additional work for County staff. Reactivating terminated employees could lead to other errors or abuse.

It was noted in one instance that the delays in ratifying CBAs resulted in a sick leave lump sum payment being paid at a higher rate per the expired CBA than would have been paid under the terms of the new CBA.

RECOMMENDATION

The optimal situation would be to have all CBAs ratified before the CBAs expire. Knowing that it could be difficult to have all new contracts ratified by the expiration date, the process for paying these retro pays should be reviewed to ensure they are consistently applied to terminated employees in the most efficient manner. County Policies and Procedures should clearly state how these situations are to be handled.

MANAGEMENT RESPONSE

Patricia Siemiontkowski, Director of Human Resources

With eleven bargaining units whose contracts expire at different times, it is not within the County's control to have all CBAs ratified prior to expiration. As to establishing a process for the payment of retro to ensure a consistent application to terminated employees, this, too, is outside of the County's control. In those instances where no agreement is reached between the parties and the bargaining unit is entitled to proceed to Interest Arbitration, a panel of arbitrators determines whether or not terminated employees are entitled to retro. These Interest Arbitration Awards are binding on the County and the determination of the arbitrators must be implemented as established in the Award. In those cases where the parties reach an agreement, if and how retro is paid is determined by the parties through negotiation.

ISSUES RESOLVED DURING FIELDWORK

Throughout the course of the audit, findings were communicated to the appropriate individuals. Whenever possible, these individuals took corrective action.

1. While researching a lump sum payout entry, Payroll discovered a calculation code error, which was corrected immediately.
2. When exception items with regard to lump sum pay codes were found during testing and communicated to Payroll and Fiscal Affairs, they researched the items to verify that an error was made and then processed a correction to the pay code as soon as possible. Unfortunately, this could only be done for the current year (2013) errors.
3. As a result of testing performed and errors found during this audit, Payroll and Fiscal Affairs wrote a report so lump sum pay codes could be checked each pay period after information is imported into the HR system from Kronos and before the payroll is processed and paid. This additional step was added to the payroll processing checklist to aid in detecting pay code errors before payroll is processed and paid.

In addition to corrective action being taken in certain instances noted above, our audit revealed that a shortcoming in the workflow process (see Section B.1) was addressed by Fiscal Affairs and Payroll for terminated employees that were retiring. By developing their own procedure to track retiring employees, they are able to monitor payroll for these retirees and correct errors in a timely manner.