Office of Legislative
Auditor General

WILLIE MAYO, CPA, CIA, CICA
AUDITOR GENERAL

500 GRISWOLD STREET
STE. 848; GUARDIAN BLDG.
DETROIT, MICHIGAN 48226
TELEPHONE: (313) 224-0924

October 19, 2012

FINAL REPORT TRANSMITTAL LETTER

Honorable Wayne County Commissioners:

Enclosed is our final copy of the Office of Legislative Auditor General's Examination of Payroll and Benefit Transactions & Processes attestation engagement. Our report is dated September 6, 2012; DAP No. 2011-57-007. The contents of this final report did not substantially change from the draft report previously issued. The report was accepted by the Audit Committee September 20, 2012, and formally received by the Wayne County Commission on October 4, 2012.

We are pleased to inform you officials from the Department of Management and Budget-Central Payroll Division, the Personnel/Human Resources Division, the Wayne County Department of Technology, the Wayne County Treasurer's Office, and the Wayne County Retirement System provided their full cooperation. If you have any questions, concerns, or desire to discuss the report in greater detail, we would be happy to do so at your convenience. This report is intended for your information and should not be used for any other purpose. Copies of all Office of Legislative Auditor General's final reports can be found on our website at: http://www.waynecounty.com/commission/lagreports.htm

Willie Mayo, CPA, CIA, CGAP, CICA
Auditor General

REPORT DISTRIBUTION

Office of the Wayne County Executive
Jeffrey Collins, Deputy CEO

Office of the Wayne County Treasurer
Raymond J. Wojtowicz, Wayne County Treasurer
Christa Mclellan, Deputy Treasurer, Financial Services

Department of Management & Budget
Carla E. Sledge, Chief Financial Officer
Lyn Roberts, Director of Financial Reporting
Terry L. Hasse, Director, Grants Compliance and Contracts Management

Department of Personnel/Human Resources
Tish King, Director
Lisa Laginess, Director of Administration

Department of Technology
Edward Winfield, Director
Jeffery Small, Deputy Director

Wayne County Executive

Independent Auditor's Report on

County of Wayne, Michigan
Departments of Management & Budget and Personnel/Human Resources

EXAMINATION OF PAYROLL AND BENEFIT TRANSACTIONS & PROCESSES

Attestation Engagement

September 6, 2012

EXECUTIVE SUMMARY

Type of Engagement, Scope, and Methodology

This is an attestation engagement with the expressed purpose of assessing and expressing an opinion regarding the effectiveness and efficiency of payroll and benefit processes and controls within the Departments of Management & Budget-Central Payroll Division and Personnel/Human Resources. Additional testing was also performed in the Wayne County Department of Technology, the Wayne County Treasurer's Office, and the Wayne County Retirement System.

The fieldwork was substantially completed on September 6, 2012, and the scope of our engagement was for fiscal years ending September 30, 2010 and 2011. The principal methodology used for this engagement was limited to inquiries, examination of documents, observations, analytical procedures, and on-site visits.

Introduction

The Department of Management & Budget - Central Payroll is responsible for the processing of bi-weekly payrolls and required withholdings in accordance with collective bargaining agreements and regulatory requirements. They also process payments to various taxing authorities, garnishments, Friend of the Court payments, etc.

The Department of Personnel/Human Resources is responsible for maintaining the county's PeopleSoft Human Resource Information System which stores employee records. The department assists other departments with personnel transactions and processes employment verification requests. The department also maintains and publishes the Executive and Non-Executive Employee Benefit Plan. They evaluate requests for salary increases, maintain and publish pay plans, as well as ensure employees adherence to all county ordinances, state, and federal laws.

The Benefits Division manages all functions related to employee health and disability benefits, including medical, dental and vision benefits, workers compensation and long-term disability; Family Leave Medical Act (FMLA) leave requests, and evaluates job requests in accordance with the American Disabilities Act (ADA).

The Department of Technology is responsible for the security and maintenance of PeopleSoft, the county's timekeeping and payroll processing system.

The Wayne County Retirement System maintains the retirement and/or investment records for all active, retired and deferred members of Wayne County and processes retiree payrolls and benefits. The Retirement Office disburses over $115 million annually in pension benefits to over 5,500 retirees and beneficiaries.

Summary of Issues:

We determined there are seventeen (17) areas of concern and recommendations related to processing the county's payroll. Nine (9) of the recommendations are considered to be operational and design control deficiencies which are classified as relatively low risk, and eight (8) recommendations are classified as significant deficiencies which are deemed to be medium risk and could have an immediate negative impact on the county's payroll transaction process if not addressed. See the appendix for a definition of the various types of deficiencies.

We held a closing conference and discussed the findings and recommendations with management and they agreed in principle with most of the recommendations. (See Report Details.)

The areas within the payroll processes and procedures we identified that could be strengthened were:

- Lack of Cross Training
- Lack of Formalized Policies and Procedures
- HIPAA Violations
- Lack of Succession Planning
- Lack of Fiscal Transparency over Benefit Plan Changes/Early Retirement Incentives
- Lack of Transparency over Severance Agreements

Noteworthy Accomplishments

- Management & Budget senior management strengthened payroll review processes by implementing a tiered review/approval level for gross pays in excess of $5,000 on a bi-weekly basis.
- Personnel/Human Resources – Benefits Division strengthened security controls over confidential employee data.
- Wayne County Treasurer's Office and Management & Budget – Central Payroll are improving procedures to review and escheat old outstanding payroll checks.
- Personnel/Human Resources is in the process of creating a county-wide succession plan.
- New employee hiring process includes:
    - Drug screens (for certain departments/classifications)
    - Fingerprinting (on Police Officers)
    - Background checks
    - Reference

- Checks/verifications.

- After the protest of the pay out to the former Director of the Economic Development Growth Engine (EDGE), the administration and the Commission has established several key operational controls to mitigate future occurrences of this nature:
  - All employees' compensation in excess of $5,000 on a bi-weekly basis requires the approval of the CFO.
  - The Department of Management & Budget revised Policy No. 10011, effective October 25, 2011, to establish an approval process for compensation packages for certain appointees. These appointees are identified in Wayne County Charter Section 4.385, which includes, but are not limited to, the Deputy CEO, directors, deputy directors, and others that are appointed by the CEO. Compensation packages for these individuals must now be approved by Personnel, Corporation Counsel, the CFO and CEO prior to submitting the package to the Commission for approval.
- The CEO issued a new ethics policy, dated February 9, 2012, that states:
  - "The CEO shall inform in writing the Chair of the Wayne County Commission of any revisions or supplements to the Executive Benefit Plan, prior to implementation."
  - "The CEO and/or Executive Appointee shall inform in writing the Retirement Commission regarding any revision to a retirement benefit prior to implementation."
- The Commission enacted Enrolled Ordinance No. 2012-096, the County Benefits Ordinance, which addresses fiscal transparency over provision of benefits beyond established compensation and pay rates.
- The Wayne County Commission amended Section 73 of the Fraud Investigation Policy Ordinance to establish the Wayne County Fraud and Correction Investigation Unit and provided $200,000 funding for it in the fiscal year 2012 – 2013 budget.
- The Wayne County Employees Retirement System Board of Directors adopted State of Michigan Public Act 728 – Supplemental Actuarial Valuation.

Corrective Action Plan (CAP) – A CAP will be due within 30 days after this report is formally received and filed by the Wayne County Commission. If sufficient corrective action is not taken, a follow-up review may be necessary.

REPORT DETAILS

PURPOSE / OBJECTIVE

The Office of Legislative Auditor General (OAG) conducted an attestation engagement for the Departments of Management & Budget-Central Payroll (Central Payroll) and Personnel/Human Resources (Personnel). We also performed additional testing in the Wayne County Treasurer's Office (Treasurer), the Department of Technology (DoT) and the Wayne County Retirement System (Retirement). The purpose of our review was to identify key risks within the county's payroll and benefit transaction processes and to assess whether management has appropriate controls in place to sufficiently manage or mitigate the identified risks.

Our objectives for this engagement were to: (1) assess various types of payroll and benefit transactions and ensure that each process was in accordance with established policies and procedures and best practices; and, (2) ascertain from executive, elected and commission officials if severance agreements/early retirement incentives were, or have been, offered to county employees and assess compliance with county policies and procedures.

SCOPE

We conducted this examination engagement in accordance with attestation standards as established by the American Institute of Certified Public Accountants (AICPA), and applicable Generally Accepted Governmental Auditing Standards (GAGAS) issued by the Comptroller General of the United States, and accordingly, included examining on a test basis, evidence supporting the Departments of Management & Budget-Central Payroll and Personnel/Human Resources. We performed such other procedures as we considered necessary under the circumstances. We believe that our examination provides a reasonable basis for our opinion.

The scope of this engagement focused primarily on Central Payroll & Personnel's payroll processes. The scope of our work encompassed two fiscal years, October 1, 2009 – September 30, 2010 and October 1, 2010 – September 30, 2011. In addition, we also reviewed payroll related functions that are performed within the Treasurer's Office, the Department of Technology, and the Wayne County Retirement System. The fieldwork for this engagement was substantially completed on September 6, 2012.

METHODOLOGY

To address the objectives outlined for this engagement, we interviewed staff from Central Payroll and Personnel/Human Resources. In addition to regular payroll and benefit transactions, we reviewed several non-routine payroll transactions including, but not limited to, sick/vacation leave payouts, severance payments, extra compensation payments, out of class pay, mileage reimbursements, overtime pay, retroactive pays, temporary assignment pay, etc. We also reviewed on a sample basis, several other payroll procedures and reports/queries that are used in the payroll process to ensure that all employees are paid correctly and all errors such as omitting employees in a pay cycle or paying inactive employees did not occur.

We interviewed other county officials and staff from the Personnel-Benefits Division, Treasurer's Office, Department of Technology (DoT) and Retirement, to acquire an understanding of the functions each department performs during the processing of the county's bi-weekly payroll. We interviewed Benefits staff to determine the controls in place over additions and deletions to Wayne County benefits offered to its employees. We also reviewed several Collective Bargaining Agreements and Benefit Plans to determine if the health coverage provided was in accordance to the Collective Bargaining Agreement and the Benefit Plan.

We also made inquiries of Wayne County Treasurer officials to gain an understanding of how off-cycle checks (i.e., not disbursed with the normal payroll process), paper checks, electronic file transfers to benefit vendors are processed regarding payroll.

We met with DoT officials to gain an understanding of the controls set in place within the County's PeopleSoft system to deter external intrusions, unauthorized access levels, password security, firewall protection and several other areas surrounding the security measures over the payroll process.

We interviewed key officials from Retirement to determine their defined role in the processing of employees' retirement contributions and retirees' payroll. We reviewed several Retirement Enrollment Forms and verified that the employee elected percentages or amounts to be contributed were in accordance to the associated Collective Bargaining Agreement or Benefit Plan.

Finally, we met with management officials to discuss our findings, obtain their input, and their concurrence with the report's findings and recommendations.

BACKGROUND

The county utilizes the PeopleSoft system to record its payroll. County employees are paid bi-weekly with the last day of the pay cycle as Sunday; employees are paid the following Friday.

The electronic time entry sheets are completed at various work locations, either individually by employee or in a group by a timekeeper. Employees and timekeepers only have access to enter routine items like regular hours, vacation and sick time, personal business, etc. The employee's immediate supervisor or time keeper reviews the employee timesheets to make sure they reflect the correct time and are accurate, and to ensure the correct numbers of employees are accounted for.

The Departments of Management & Budget-Central Payroll (Central Payroll) and Personnel/Human Resources (Personnel) are responsible for processing county payroll. Personnel staff has the ability to add or modify employee personnel information. This includes, but is not limited to, determining pay rates for initial hires, assuring pay rates are in accordance to Collective Bargaining Agreements/Benefit Plans, position changes, emergency contact information, salary changes/adjustments, disciplinary actions, and personal and leave balance status. A selected few Personnel staff has the ability to enter time into the PeopleSoft System, while others are only allowed to view the payroll processing files.

Central Payroll is structured within Management & Budget's Division of Financial Reporting. This payroll unit is responsible for processing the county's bi-weekly payrolls and required withholdings in accordance with collective bargaining agreements and local, state, and federal statutory requirements.

Central Payroll's functions include processing timely payments to the taxing authorities, payments for garnishments, student loans, parking deductions and any other employee/employer payroll deductions per the data entered into county's PeopleSoft System. However, no Central Payroll employee can add employees, enter time or perform any other Personnel/Human Resource related functions.

Personnel costs are the county's second largest expenditure. Personnel costs are comprised of salaries and wages, including per diem, overtime, shift differential, premium pay, cost of living adjustment, longevity, accumulated annual and sick leave, and workers compensation supplement.

There are currently three FTEs in the Central Payroll Processing unit. For the pay periods examined during our review, the County issued an average of 4,667 bi-weekly payroll checks for fiscal year end 2010 and 4,464 for fiscal year end 2011. The bi-weekly gross pay for fiscal year 2010 averaged $10,167,406 and $9,433,979 for fiscal year end 2011.

ASSESS PAYROLL TRANSACTIONS

Objective #1- Assess the various types of payroll transactions and ensure they are processed in accordance with established policies and procedures.

Conclusion

We interviewed personnel from Central Payroll, Personnel/Human Resources, Benefits, Treasurer, DoT, and Retirement, to acquire an understanding of the payroll processing procedures including, but not limited to, who is involved, how the process is documented, how salary and wage adjustments are initiated, authorized and recorded. We also assessed how non-routine transactions are processed in the county's payroll system and recorded in the general ledger. In addition, we reviewed other relevant documents and interviewed management officials as deemed necessary.

We determined that while management has established an effective management structure and have implemented sound business procedures over the processing of county payroll, we found areas where internal controls and processes could be strengthened. Listed below are the identified areas in which management could strengthen controls over these key business payroll processes.

DEPARTMENT OF M&B – CENTRAL PAYROLL DIVSION

Escheating Outstanding Payroll Checks

Condition

Our review of outstanding payroll checks and discussion with a senior management official in the Office of the Wayne County Treasurer disclosed that there may be employee payroll checks outstanding for more than one-year that have not been escheated to the State of Michigan. A review of outstanding payroll checks as of March 31, 2012 disclosed that there is approximately $158,000 of outstanding payroll checks that have been unclaimed and outstanding, and according to state statute, should be escheated to the State of Michigan.

Criteria

Michigan Public Act 29 of 1995, Uniform Unclaimed Property Act, as amended by Public Act 677 of 2002, under section 16 (1) requires outstanding payroll checks greater than $50 that remain unclaimed by the owner (i.e. employee) for more than 1-year after becoming payable are presumed abandoned and are required to be turned over to the State of Michigan Treasurer.

Cause

A senior management official in the Treasurer's Office stated that there are very old items on the outstanding check list. These checks may have been voided in PeopleSoft but not removed from the outstanding check list. This official also said that Payroll is in the process of reviewing these items and will forward instructions to the Treasurer on how to handle them. It was also stated that Payroll has initiated a process whereby the Treasurer will be regularly notified when a check is reissued so that it may promptly be removed from the outstanding check list and thereby voided.

Consequences

According to Section 35 (1) of the state law: "A person who fails to pay or deliver property within the time prescribed by this act shall pay to the administrator (the state treasurer), interest at the current monthly rate of 1 percentage point above the adjusted prime interest rate per annum per month on the property or value of the property from the date the property should have been paid or delivered…."

Recommendation 2011-01 – Significant Deficiency

a. We recommend senior officials in both Management & Budget and the Treasurer's Office establish policy and implement procedures to ensure outstanding payroll greater than $50 checks are timely reviewed and their disposition be determined.
b. We also recommend M&B and Treasurer Officials, without delay, identify those payroll checks that have been outstanding for one-year or more and escheat those funds to the State Treasurer as required by the state's unclaimed property law to alleviate potential penalties.

Views of Responsible Officials

Management & Budget agrees with the recommendation and is working to develop an escheat policy. Monthly reviews of the payroll outstanding checklist have been implemented and are performed on a monthly basis to determine the disposition of outstanding checks and whether or not they are required to be escheated. In many cases, the checks have been voided and reissued in PeopleSoft and should be purged from the Treasurer's outstanding checklist. It is anticipated that a full analysis of outstanding payroll checks will be completed by September 30, 2012. Management & Budget will continue to work with the Treasurer's office to strengthen procedures for review of outstanding payroll checks and finalize an escheat policy.

Lack of Cross Training

Condition

The Department of Management & Budget, Central Payroll Division is currently responsible for the processing of approximately 4,500 payroll checks per pay period. In addition, during the off pay cycle week, they also have the responsibility for the preparation and issuance of checks for the payment of student loans, garnishments, Friend of the Court, employee parking deductions, union dues, payroll taxes, and various other employee deductions.

The Central Payroll Division is budgeted for five (5) FTE and three (3) positions are currently filled. We also were informed there are no backup personnel trained to perform the department manager duties when he is absent.

Criteria

Best practices dictate that an organization implement cross-training to ensure continuity of operations and the achievement of business objectives during employee absences for illness, vacation and unexpected turnover.

Cause

Due to budgetary constraints, the Central Payroll Division has been required to reduce staff to minimal levels. However, management indicated they are currently interviewing to fill a key position resulting from retirement of a division executive.

Consequences

Because the work performed within the Central Payroll Division is vital to the continuity of county operations and meeting both internal and external obligations, if the division manager is absent for an extended period of time or terminates employment, the effect on the assigned responsibilities of the payroll operations could be adversely impacted.

Recommendation 2011-02 – Operational Control Deficiency

We recommend The Central Payroll Division develop and implement a comprehensive cross-training program to ensure payroll processes will not be adversely impacted in the event of an employee's extended absence.

Views of Responsible Officials

Management & Budget acknowledges there is a need for cross training in the Payroll Division. M&B anticipates hiring a Department Supervisor 1 by October 31, 2012. Although this addition will improve the workflow, budget constraints prevent the division from being fully staffed to perform all essential functions. The Department Supervisor 4 is very knowledgeable about payroll functions and has the ability to serve as a back up for the Department Manager 5 and ensure continuity of payroll services. Management & Budget will work to initiate cross-training between job functions where practicable and reasonable and where there is no conflict with segregation of duties.

No Formalized Policies and Procedures – Central Payroll

Condition

Based on discussion with management officials, the Department of Management & Budget, Central Payroll Division has not formalized their daily responsibilities and tasks into written policies and procedures. Specifically, the current staff within Central Payroll has the experience, knowledge, and an accurate understanding of the payroll processing procedures and assigned authority that govern the operations of the division. However, the established and implemented payroll business practices, which include the process for authorizing payroll check pickup from the Treasurer's Office by anyone outside the payroll staff, have not been formalized into policies and procedures that would be available as operational guidelines for reference in case of employee turnover.

Criteria

Senior management has a responsibility to ensure effective internal controls are implemented. Internal controls include establishing policies and procedures that govern the business objectives' assigned job responsibilities. They also are used to promote uniformity and consistency in performing the duties and responsibilities related to operational activity, as well as mitigate the department/division from possible legal action and exposure to employee fraud. Best practices dictate that businesses maintain a document that clearly states the key operational policies and procedures of the department/division.

Cause

Management stated there are no formal, written policies and procedures manual; however, there are directives, such as collective bargaining agreements (CBA) and executive benefit plans that provide guidance on payments, and established business practices that are used to process payroll. All payments to employees are authorized by Personnel, with the exception of replacement checks and refunds to employees for cancelled withholdings.

Consequences

By not developing a division-specific, written, comprehensive policies and procedures manual could result in inconsistencies when performing division oriented duties and responsibilities and result in inconsistencies and no uniformity in handling payroll transactions. In addition, formalized policies and procedures would consolidate all Central Payroll directives, CBA, and executive plans into one reference manual. Therefore, it would reduce the complexity of processing payroll transactions when and if turnover in this department occurs.

Recommendation 2011-03 – Operational Control Deficiency

We recommend management within the Department of M&B-Central Payroll Division formalize (written) and develop a comprehensive Policies and Procedures Manual for all the job functions and responsibilities carried out by the Division.

Views of Responsible Officials

Central Payroll acknowledges that they do not have a comprehensive written policies and procedures manual. As there are limited resources available to dedicate full time resources to the project, Management & Budget will begin by developing a plan to identify all Payroll policies and procedures. Once documented, future changes to policies and procedures will be made to the manual, as needed, to ensure it is current at all times.

DEPARTMENT OF PERSONNEL/HUMAN RESOURCES

Policies and Procedures Require Updating – Personnel/HR

Condition

The Department of Personnel/Human Resources does have a formal, comprehensive written P&P manual. However, according to Personnel management the manual has not been updated in at least three years.

Criteria

Senior management has a responsibility to ensure a current, comprehensive P&P manual exists. The manual is necessary to promote uniformity and consistency in performing the duties and responsibilities related to operational activity, helps with succession planning, as well as protect the department/division from possible legal action and exposure to employee fraud. An effective internal control environment includes maintaining a current P&P manual that clearly states the key operational policies and procedures of a department/division.

Cause

Management recognizes the importance of having current, written policies and procedures. Management also stated that the policies and procedures need to be updated and expanded to include reconciling Personnel/Human Resources policies with the Charter and Civil Service Rules for consistency.

Consequences

Not maintaining a current/updated, written comprehensive policies and procedures manual could result in inconsistency and ambiguity when performing division job duties.

Recommendation 2011-04 – Operational Control Deficiency

We recommend management within the Department of Personnel/Human Resources continue updating and expanding their comprehensive, formalized (written) policies and procedures to include reconciling Personnel/Human Resources policies with the Charter and Civil Service Rules for consistency.

Views of Responsible Officials

The Personnel/Human Resources management team recognizes the importance of having current, written policies that promote continuity and understanding within the County. To that end, the Personnel/Human Resources management staff is currently in the process of reviewing all Personnel/Human Resources policies and comparing them with other entities to come up with an extensive list of appropriate policies. As part of this review process, we must also reconcile Personnel/Human Resources policies with the Charter and Civil Service Rules for consistency. Based upon the review, we will begin to revise and create the necessary policies that will cover our Wayne County employees. The Personnel/Human Resources management team has scheduled working meetings to accomplish this goal of revising and creating policies and procedures for a standardized approach to managing the human resource function.

Failure to Obtain Actuarial Valuation for Changes to Benefit Plan

Condition

The County Executive revised the Benefit Plan for Executive and Non-Executive Exempt Employees in December 2010. In addition, an early retirement incentive was offered to certain county employees on February 11, 2011. Absent of explanation, the employee was required to accept the retirement offer by February 11, 2011. The supplemental actuarial valuation required measuring the financial impact of the proposed benefit changes and early retirement incentive, as required by state act, was not completed by the Wayne County Employees Retirement System's (WCERS) actuary until March 30, 2011.

Criteria

According to Michigan Public Act 728, which became effective, December 30, 2002, a supplemental actuarial analysis by the WCERS actuary is required to be provided to the Retirement Board and to the decision-making body that will approve the proposed benefit change at least 7 days before the proposed pension benefit change(s) is adopted.

Cause

Lack of adequate checks and balances resulted in management failing to comply with Michigan Public Act 728.

The WCERS Trustees passed a resolution in April 2011 making it mandatory that a supplemental actuarial valuation be obtained to measure the financial impact of proposed benefit changes for certain members of the Wayne County Employees Retirement System.

Consequences

Not receiving timely notification from the CEO regarding the proposed benefit changes caused the county to be in violation of state law. It also prevented WCERS and senior county management from being adequately apprised of the long-term cost impact to the retirement system associated with the proposed benefit changes. Failure to adhere to this public act could result in adversely impacting the county's defined benefit plan and sanctions by the State of Michigan.

Recommendation-2011-05 – Significant Deficiency

We recommend the CEO or his designee promptly notify the WCERS of any proposed executive benefit changes in the timeframe mandated by state law so that the required actuarial valuation, which measures the financial impact of these changes, is performed prior to proposed benefit change implementation.

Views of Responsible Officials

Personnel/Human Resources management staff agrees with the finding; however, we believe this issue is shared with the Retirement Office.

It is the intent of the Department of Personnel/Human Resources to work closely with the Retirement Office and CEO to comply with Michigan Public Act 728 when making any future changes to the Executive Benefit Plan.

Lack of Cross Training

Condition

The Personnel/Human Resources Division is responsible for approving payroll transactions and employees' reported work hours through the PeopleSoft system. In addition, they process and approve non-routine pay transactions such as additional pay (sick and vacation payouts, specialty pay), out of class pay, severance payments, etc. They also process employment verification and respond to FOIA requests.

Four (4) employees are primarily responsible for processing specific personnel and payroll transactions and are not cross-trained on all transactions.

Criteria

Best practices dictate that organizations implement cross-training to ensure continuity of operations and the achievement of business objectives during employee absences for illness, vacation and unexpected turnover.

Cause

The Personnel/Human Resources Division stated the department has limited staff and cross training has not been fully completed.

Consequences

Because the work performed within the personnel division is vital to the continuity of county operations, if one or more of the employees are absent for an extended period of time or terminate employment, the effect on the assigned responsibilities of the personnel operations could impede county operations.

Recommendation 2011- 06 – Operational Control Deficiency

We recommend the Personnel/Human Resources Division develop and implement a comprehensive cross training program for their employees to ensure personnel processes will not be adversely impacted in the event of an employee's extended absence.

Views of Responsible Officials

Management agrees that with such limited staff, the department needs cross training more than ever. However, Personnel/Human Resources staff is cross trained in most areas of payroll processing, except for the payoff of leave banks; running of certain queries and reports; and, running of the time administration process. We are currently in the process of cross-training one of the Human Resources (HR) Generalists in the running of time administration and some of the other queries. The second HR Generalist has been working for Wayne County in the HR/payroll area for just over one year. She is being gradually trained in many of the functional areas of human resources.

The Personnel/Human Resources Department has one (1) staff member currently working in Selection and Recruitment who previously worked in payroll. This individual would easily be able to function in a payroll slot if an emergency arose. We also have four (4) others in the Recruitment area who were briefly trained in some of the payroll areas. If necessary, we are able to bring one or more of them into payroll and train for an emergency situation. Additionally, our Chief of Administration has worked in the payroll area and would also be able to provide support.

The goal of Personnel/Human Resources management staff is to cross train the benefit team and the payroll team in their respective transactions to create depth of knowledge within the department. We are planning to move to that type of model by the next fiscal year.

Validating Reported Work Hours

Condition

Since the county has implemented the PeopleSoft on-line time reporting system, the OAG has determined that in most instances, supervisors responsible for approving employees' reported work hours have no supplemental document or other mechanism to validate the employees' reported work hours.

According to Management & Budget, the following departments are currently using swipe cards: Department of Children and Family Services and the 3rd Circuit Court. The Wayne County Clerk uses a biological recognition system.

Criteria

According to Management & Budget's payroll policy No. 12003, time reports must include the signature (i.e., approval) of the supervisor having firsthand knowledge of the hours worked by the employee.

An effective system of internal control will include supporting documentation to validate payroll transactions opposed to management's reliance on the "honor system." The supplemental mechanism would be available when questions or known variances occur.

Cause

Personnel/Human Resources management stated that the PeopleSoft on-line time reporting includes a certification statement that is relied upon to verify an employee's reported work hours.

Consequences

Given the fact salaries, wages and fringes is the county's second largest expenditure, approximating 19 percent of total expenditures, without a separate mechanism or documentation in place to validate hours being reported by the employee as worked, there is an inherent risk that employees "could" be paid for hours not worked.

Recommendation 2011- 07 – Operational Control Deficiency

We recommend the Department of Personnel/Human Resources establish county-wide policies and procedures to address the inherent risk associated with the implementation of the PeopleSoft payroll system and the reporting of employees' work hours to mitigate potential abuse.

In addition, we believe management need to discuss with the Wayne County Department of Technology the feasibility and costs of establishing additional automated controls, such as swipe cards county-wide to provide the supplemental documentation to verify hours worked by county employees.

Views of Responsible Officials

Management disagrees because a policy would not cure the inherent nature of the potential risk. The only way to eliminate this potential risk is to implement a timekeeping capture system where each individual employee would "swipe in" using a card to verify actual time. This type of system implemented county-wide would cost thousands of dollars and a cost benefit analysis would need to be done to see if such a system is worth our investment.

Most supervisors cannot physically see all their employees when they enter or exit their work site and a sign-in sheet or paper timesheet would not solve that problem either (in fact, it would be contrary to our efforts to go paperless).

The current PeopleSoft system requires all those who enter or approve time to attest to the validity and accuracy of the action when they are entering/approving the time. A policy cannot be written for every conceivable circumstance; instead, our policy sets forth a set of standards that employees are expected to follow. While the addition of a time capture system into PeopleSoft would have the potential to increase accuracy at significant cost, a fail-safe process is practically impossible.

The Personnel/Human Resources staff has drafted an amended policy taking the self service time entry into consideration. The policy was amended December 1, 2011 and states, in part: "...Although division management may prefer that employees complete manual time reports to support self service time entry for additional control reasons, it is not required. The self service time in the system shall become the official record."

Benefit Administration Division - HIPAA Violation

Condition

Subsequent to our period of review, on Friday, March 16, 2012, employees' personal information, such as employee ID, social security numbers, home addresses, etc. were mistakenly released as an attachment to an email sent to members of AFSCME Locals 25, 101, 409, and 1659. This violated the Health Insurance Portability and Accountability Act of 1996 (HIPAA).

Criteria

The Health Insurance Portability and Accountability Act of 1996, or HIPAA, prohibits the release of an individual's personal information without prior written authorization.

Cause

Benefits Administration Division stated the distribution of the personal and confidential information resulted from a human error and there was no deliberate intent to distribute any of the information from that file to other individuals.

Management also stated they are in the process of reviewing our privacy policies and procedure to ensure this type of data compromise does not occur in the future.

Consequences

HIPAA violations, even if unintentional, expose the county to potential fines ranging from $100 per violation, to a maximum of $50,000 per violation with an annual maximum of $1.5 million.

Recommendation 2011- 08 – Significant Deficiency

We recommend Benefits Administration review its internal policies and procedures regarding the creation, storage and labeling of files containing personal information to prevent the improper disclosure of such confidential employee information.

Views of Responsible Officials

Personnel/Human Resources management staff agrees with the finding with the following clarifications and comments.

We would like to clarify that the proximate cause of the breach was human error. The file with the personal information was not created to be distributed. A working file was created in order to extract certain information for internal purposes; in this case, to prepare for a special open enrollment period for the AFSCME employees who were then mistakenly provided with that information. There was no intent to distribute any of the information from that file to any of the individuals to whom it was sent. This was simply a mistake made by the email sender who clicked the wrong file as an attachment.

As you may know, the nature of the work conducted by the employees in Personnel/Human Resources and specifically those in the Benefits Administration Division, requires daily contact with personal information including personal health information as defined under HIPAA. Our work often requires that we create data sets to work from and to legitimately provide to insurance/plan providers for enrollment in an appropriate and secure manner. There were a number of contributing factors which made it easier for this error to occur: the expansiveness of the query that created the file at issue; the place within the computer system in which that file was stored; and, how it was labeled.

In an effort to ensure that a breach of this nature does not reoccur, we have created an internal control process to include a procedure for creating and managing sensitive data. Specifically, queries are no longer to contain any personal information unless necessary to complete the task requiring the data. If personal information is necessary, the file is to be clearly labeled as containing personal data; password protected and kept in a separate folder/subdirectory within the computer system designated specifically for sensitive files. Further, files with sensitive information are only to be kept for as long as a legitimate business need exists and then to be deleted. The procedure will also include a periodic audit of sensitive files to ensure that files are reviewed and purged as deemed necessary.

OFFICE OF THE TREASURER

Lack of Independent Review Procedures

Condition

Currently the printing, verification, recordkeeping and file retention duties for off-cycle payroll checks printed by the Treasurer's Office are conducted by a department manager. A department manager prints the payroll checks; after a system confirmation is printed (green sheet), the department manager performs the verification between the confirmation sheet and the check register. A check log is also prepared and completed by the manager. The manager is responsible for ensuring all payroll documents are filed.

Based on our review of the Treasurer's Office payroll check printing and recordkeeping functions, we identified recording errors on the check log. For example: duplicate check numbers; a missing check number; and, check batch totals did not equal number of checks printed for that batch. We attribute the identified errors to not having an independent or supervisory review of the manager's work.

Subsequently, management was able to trace and correct the errors we found in the payroll check log, but only after our discovery.

Criteria

An effective system of detective controls requires verifications to be performed by a person not involved with the processing and record keeping functions. In addition, these controls require supervisory personnel to document their review and approval of the payroll processing functions.

Cause

Management stated that the bi-weekly payroll check printing is a small operation, with one person typically handling all the work. The lack of a timely review by management allowed the above noted discrepancies to go uncorrected.

Consequences

A lack of supervisory and independent review of payroll printing and recording functions could result in the untimely detection of errors and reduce the reliability of the reported payroll information.

Recommendation-2011- 09 - Operational Control Deficiency

We recommend management within the Treasurer's Office implement a formal (i.e., documented sign-off) review process for the check printing process functions and supporting documentation.

Views of Responsible Officials

Management partially agrees with the recommendation. We do not agree that additional management review is necessary because the Wayne County Treasurer's Office (WCTO) role in this process is to review. The WCTO does not prepare any of the reports; our manager's role is to verify that the amounts on the M&B generated reports agree to the check run reports (system generated). The exception to this is the check logs; however, as noted below, that issue has been addressed.

The Wayne County Treasurer's Office concurs that there were errors in the check log and has instituted an automatic process, whereby if the numbers in the check log are not sequential, an error message appears and can be immediately addressed. In addition, with the timely reconciliations of the outstanding check list, the employee responsible for the reconciliation will be viewing the check log on a monthly basis and will follow-up on any errors.

Lack of Timely Reconciliations of Outstanding Checks

Condition

During our review of county issued payroll checks at the Treasurer's Office, it was brought to our attention that management has not been reconciling outstanding checks to the amount recorded in the general ledger on a timely basis.

Criteria

An effective system of financial internal control should include management's periodic monitoring and performing reconciliations. This will increase the reliability of financial information being reported which is essential to effective management.

Cause

Treasurer Officials stated that the payroll account is a zero balance account. When payroll checks are issued, an entry in the general ledger is posted for the total amount of checks issued. As checks are clearing, funds from the county's main bank account are transferred to the payroll account and an entry is posted to the general ledger account to reduce the account balance. Therefore, any outstanding checks should equal the account balance in the general ledger. It is the reconciliations of the outstanding check lists to the general ledger that are not being performed timely.

Treasurer officials informed us that they are in the process of reconciling the outstanding check balance to the amounts recorded in the general ledger.

Consequences

Failing to perform the reconciliation of outstanding payroll checks to the county's general ledger on a timely basis could result in errors going undetected and reduces the reliability of the information recorded in the general ledger.

Recommendation-2011- 10 - Operational Control Deficiency

We recommend the Treasurer's Office implement procedures to ensure the payroll outstanding check list reconciliation is brought current; reconciled to the county's general ledger; and, going forward, performed in a timely manner.

Views of Responsible Officials

Management agrees and the OAG is correct with stating that this reconciliation is not being completed timely. Wayne County Treasurer's Office executive management became aware of this issue approximately six to eight months ago and brought it to the OAG's attention when they were on site.

The WCTO cash management staff has been working on this issue and has identified items that need follow-up by Management & Budget (M&B). As soon as M&B has completed their review and determined the outcome of those items, these reconciliations will be once again performed timely, on a monthly basis. This reconciliation affects the outstanding check list and the payroll clearing accounts in the general ledger; it does not affect cash balances. All cash balances are reconciled timely on a monthly basis.

WCTO has instituted a procedure to forward the outstanding check lists to M&B each month so that the outstanding items can be promptly identified and handled.

DEPARTMENT OF TECHNOLOGY

DoT Change of Access Forms Missing

Condition

Our review of Separation Reports for 37 employees that terminated their employment with the county during FY's 2010 and 2011 found none had the required Department of Technology (DoT) *Change of Computer Access Request Form* attached. In addition, our discussion with DoT officials disclosed that they have not always been notified on a timely basis when an employee separates employment from the county.

We found this condition was cited as a repeat finding by Plante Moran, the county's external auditors, in their FY 2011 *Information Technology Report on General Controls.*

Criteria

In accordance with instructions from the Department of Personnel/Human Resources, when an employee terminates employment from the county, a *Separation Report* is required to be completed along with a completed DoT *Change of Computer Access Request Form* which must be attached to the *Separation Report*. The county's intranet site contains the *Separation Report* and the DoT form, with a notation that the DoT *Change of Computer Access Request Form* must also be completed. This form is intended to be forwarded to DoT and is used to remove an individual's access to Wayne County network applications.

Cause

According to management, this finding has previously been addressed with the county's external auditors. Management stated they have been working with the Department of Personnel/Human Resources to implement electronic workflows for employee additions and deletions to/from the system. The workflows are configured to ensure timely electronic notification to appropriate staff responsible for account terminations.

Consequences

Timely removal of terminated employees' access to information technology systems is required to prevent unauthorized transactions or inappropriate access to restricted data. There is a risk that terminated employees can access restricted data and create unauthorized transactions.

Recommendation-2011- 11 - Significant Deficiency

We recommend DoT and Personnel/HR management work together to ensure timely notification of separated employees' account terminations.

Views of Responsible Officials

Management agreed with the recommendation and is working with the Department of Personnel to implement measures to ensure the timely removal of terminated employees.

PeopleSoft Security Audit Not Conducted

Condition

Discussion with DoT management disclosed that they were in the process of implementing an annual security audit to review system access and permission rights for employees with PeopleSoft accounts. The audit will require the department to work in conjunction with the Department of Personnel/Human Resources. The targeted completion date was April 2012. According to DoT management, the test has been tentatively postponed to June/July 2012. As of the date of our report, the audit has not yet been conducted.

We also noted this condition was cited as a repeat finding by the county's external auditors in their FY 2011 ***Information Technology Report on General Controls.***

Criteria

Periodic review of employee access privileges, and the validation of the appropriateness of the access privileges granted, minimizes the risk of unauthorized transactions or inappropriate access to county data systems.

Cause

According to management, DoT has not been able to conduct the annual PeopleSoft Security audit for the past two fiscal years as planned due to changes in leadership and other factors beyond their immediate control.

Consequences

Failure to validate the appropriateness of access privileges granted results in an increased risk that employees can create unauthorized transactions or have inappropriate access to the PeopleSoft payroll processing system.

Recommendation-2011- 12 - Significant Deficiency

We recommend DoT conduct the planned PeopleSoft security audit as soon as possible and ensure the results are documented and reported to county officials. We also recommend DoT, in conjunction with the Department of Personnel/Human Resources, establish a policy to periodically (i.e., at least annually) conduct the PeopleSoft User Access audit.

Views of Responsible Officials

Management agreed with the recommendation.

ASSESS SEVERANCE AGREEMENTS/EARLY RETIREMENT INCENTIVES

Objective #2 - Ascertain from executive, elected and commission officials if severance agreements/early retirement incentives were, or have been, offered to county employees and assess compliance with state and county policies and procedures.

OFFICE OF THE COUNTY EXECUTIVE

Lack of Succession Planning – County-wide

Condition

Administrative Personnel Order 2-2011, dated February 11, 2011, stated: "As we begin budget preparation, staffing levels once again have become an issue of concern: hence, the county will need to reduce its staffing levels. Therefore, the County of Wayne is offering the following one time retirement incentive to active employees within the County Executive Departments covered by the Benefit Plan for Executive and Non-Executive Exempt Employees." This offer was extended to approximately 251 county employees.

Because several key executive employees expressed their intent to retire under this offer, the Director of Personnel offered a confidential deferred severance agreement to 16 key county executives. The agreement was accepted by the 16 executives who included, among others, the CFO, Chief of Staff, Director of EDGE, Homeland Security, and Health and Human Services.

The letter prepared by the former director of personnel also stated in part: "Any breach of confidentiality on your part will render the Separation Agreement terms and the terms of this letter null and void."

In addition, there has been additional unanticipated turnover in key employee positions, including, but not limited to:

- The Director and Deputy Director of Personnel/Human Resources leaving county employment after less than one year in their positions.
- The departure of the Deputy Chief Financial Officer.
- The departure of the Director of Financial Reporting.

Based on inquiries made, we were informed that neither the CEO or personnel department had established a formal succession planning program to address replacing key county executives that could leave county employment under the early retirement incentives.

Criteria

The Government Accountability Office (GAO), in testimony before the United States House of Representatives, stated: "Leading organizations go beyond a succession planning approach that focuses simply on replacing individuals and engage in broad, integrated succession planning and management efforts that focus on strengthening both current and future organizational capacity. As part of this broad approach, these organizations identify, develop, and select successors who are the right people, with the right skills, at the right time for leadership and other key positions."

Cause

The County Executive's Office had not developed, nor implemented a succession planning program prior to offering the early retirement incentive to key executive managers. However, the CFO stated the previous personnel director, before she resigned, was in the process of developing succession planning for key county employees.

Consequences

Without a formalized succession plan in place, key management positions may not be filled timely. This could immediately jeopardize a department/division from achieving its business objectives and delivering mandated services timely.

Recommendation 2011-13 – Design Control Deficiency

We recommend management within the Department of Personnel/Human Resources work in conjunction with the County Executive's Office to establish and implement a strategic plan and formal policies related to succession planning for key employees' positions.

Views of Responsible

The CEO and Personnel/Human Resources' management agree that the County should have an effective succession plan. As such, the staffing plan derived from the County Charter is designed for the effective succession of officials. Additionally, each department is headed by a director and a deputy director, board, or commission to ensure continuity and ultimately succession. Our organizational hierarchy also includes the appointment of various critical functions, for the same purpose. These would include Human Relations, Civil Service, Assessment & Equalization, Senior Citizens and Retirement.

The AG report mentioned 16 executives who were offered and accepted an early retirement. However, not all 16 executives have accepted the retirement. A number of those vacant positions have or will be filled internally. The Personnel/HR department will, when necessary, engage in intentionally designed staffing solutions that best align to the current needs and issues of a specific area.

For the positions retiring, it is important to note, we utilized various methods to ensure continuity and transfer of institutional knowledge. For example, incumbents were identified and retained and/or a staff member was placed on Temporary Assignment to ensure the transition was as seamless as possible.

Succession planning, within our managerial level, is an area of focus. It is important to note, even with succession planning, timing is key. If the organization is in the early stage of developing a successor for a particular position, but that position becomes vacant unexpectedly, then it may have to be filled externally. Succession planning includes identifying skills and competencies that next-generation employees will need to function well in key positions. Developing systems to identify and transfer institutional knowledge and shorten learning curves is a primary objective; (such as knowledge transfers and cross training which should occur simultaneously for the overall benefit of the organization).

In a similar engagement finding, M&B and Personnel/HR submitted a joint response. As stated previously, the Personnel/Human Resources Department is currently working on the foundational elements of a key succession plan which includes identifying required competencies and critical functions within the organization. This can be a 12 to 36 month process of preparation.

The objective is to create position descriptions that drive organizational alignment, results, and accountability for all appointed positions.

The process has begun with conducting position analyses to create Results Oriented Position Descriptions (ROPD) by using a competency matrix, essential function matrix, and results matrix which are all aligned to missions and operating objectives. This will lead to an assessment of the current talent, conducting needs assessments, establishing competency gaps, and ultimately to succession planning.

Finally, Personnel/HR staff is establishing specific recruitment plans to fill key and hard to fill positions. For example, we will identify potential recruiting sources which will aid in executive recruiting to expeditiously and fittingly fill positions.

Financial Impact – Executive Benefit Plan Changes/Early Retirement Incentive

Condition

The Office of the CEO appears to have implemented conflicting courses of action to accomplish reducing the deficit: (1) a December 1, 2010 unilateral imposition of a 20 percent pay cut on AFSCME union members; (2) a December 1, 2010 revision to the Benefit Plan for Executive & Non-Executive Exempt Employees that increased leave bank payouts; and, (3) an early retirement incentive offered February 11, 2011 that resulted in a cash outlay for the county of approximately $2.9 million;

(1) Imposed Union Cuts

A Wayne County News Release from the Office of the CEO, dated December 1, 2010, titled: **"Wayne County Implements Union Cuts"** stated, in part:

- "After nearly two years of negotiations, exhausting every resource in efforts to develop a compromise, Wayne County Executive Robert Ficano is left with no choice, and is forced to implement reductions in pay and benefits to AFSCME union members, ***effective December 1, 2010.*** [To date, over 70% of the County's unions have agreed to the 10% wage concession.]
- "Wayne County will implement a 10% reduction the union refused to take in budget year 2009-2010, as well as the 10% reduction for the current 2010-2011 budget year."
- "Our efforts have been tireless, and unfortunately, it's painfully clear this action must be taken due to the fiscal reality we're all living in..,"
- "Over the nearly two year period, both parties have been, and remain, at impasse on several issues, including key economic and benefit issues. Given the impasse and critical fiscal urgency, Wayne County must immediately act to reduce costs."
- "The county must take fiscally responsible action now, allowing realization of the critical cost containment desperately needed,'
- "With the county facing a deficit, the CEO has proactively looked at ways to preserve jobs and benefits during the region's economic downturn, keeping Wayne County employees' best interest at the forefront of his decision making, These efforts include shared sacrifice by all, asking employees to take a 10% pay cut in an effort to reduce the deficit, including the County's union employees."

(2) Changes to 2010 Benefit Plan for Executive & Non-Executive Exempt Employees

The **Benefit Plan for Executive & Non-Executive Exempt Employees** was revised ***effective December 1, 2010***, but was signed by the Director of Personnel/Human Resources on December 17, 2010.

The following table summarizes some of the benefit plan amendments:

Benefit Provision	2010 Plan	2008 Plan
Lump sum payment upon separation from employment	Not to exceed 24 weeks of wages	None
Sick leave bank payout	Lump sum payment up to 75% of 320 hours	Lump sum payment up to 75% of 160 hours
Leave bank payout	Lump sum payment up to 432 hours	Lump sum payment up to 216 hours

(3) Early Retirement Incentive

- Administrative Personnel Order 2-2011, dated February 11, 2011, stated, in part, "As we begin budget preparation, staffing levels once again have become an issue of concern: hence, the County will need to reduce its staffing levels. Therefore, the County of Wayne is offering the following one time retirement incentive to active employees within the County Executive Departments covered by the Benefit Plan for Executive and Non-Executive Exempt Employees…."
- Acceptance of the early retirement incentive included the following benefits (see table below for monetary impacts of the incentive):
  - A lump sum payment of up to 24 weeks of wages.
  - A lump sum payment of up to 320 hours sick leave.
  - A lump sum payment of up to 432 hours leave bank.
- The Administrative Order 2-2011 early retirement incentive was offered to over 200 eligible county employees.

Criteria

The CEO's stated goal has been to implement measures to reduce the county's deficits. This is evidenced by the above mentioned imposed union pay cut as well as statements in the Letter of Transmittal contained in the County's FY 2011 Comprehensive Annual Financial Report. The transmittal letter indicates "…the County has instituted a number of major cost-cutting measures to address declining revenues and increasing expenditures, including…reducing staffing in most County departments…"

Cause

According to CEO officials, numerous efforts were undertaken to reduce county deficits, including the offering of an early retirement incentive to reduce personnel costs county-wide. In addition, the CEO had at the time delegated authority to establish provision of benefits beyond existing compensation and pay rates.

Consequences

The early retirement incentive was accepted by 37 employees. Another 16 executive management employees expressed intent to retire under this incentive. They each received a separate confidential deferred severance agreement not to do so. (See finding regarding Confidential Severance Agreements.)

The financial impact of the 37 employees that accepted the early retirement incentive is detailed in the table below:

Benefit Provision	2010 Plan	2008 Plan	Incremental Cost
Lump sum payment upon separation from employment	$1.8 million	$0	$1.8 million
Sick leave bank payout	$0.4 million	$0.2 million	$0.2 million
Leave bank payout	$0.7 million	$0.4 million	$0.3 million
Totals	$2.9 million	$0.6 million	$2.3 million

An Actuarial Evaluation, as of April 1, 2011, based on an assumption of 120 eligible employees retiring under the early retirement incentive offered under Administrative Personnel Order 2-2011, dated February 11, 2011, could potentially result in an increase in the Present Value of Future Benefits (PVFB) to the county of approximately $44.6 million.

There are in excess of 100 eligible county employees that could separate employment from the county under the 2010 Executive Benefit Plan. Should all separate, the cost would approximately be as follows:

- Wage lump sum payment of $0 (zero). This portion of the Benefit Plan was rescinded by Administrative Personnel Order 10-2011, dated October 20, 2011.
- Lump sum payment for sick leave would be $0 (zero) if all employees resigned to a maximum of approximately $900,000 if all employees retired.
- Lump sum payment for annual leave bank of approximately $1.3 million.
- In summary, the cost for these additional employees from separation or retirement from the county could range from approximately $1.3 million to approximately $2.2 million.

Conflicting strategies exist when the CEO is requesting major salary concessions from employees county-wide and simultaneously offering lucrative severance packages to key employees.

In addition, the CEO failed to comply with Michigan Public Act 728 which requires a supplemental actuarial analysis to be provided to the WCERS trustees and to the decision making body that will approve the proposed benefit change at least seven days before the proposed pension benefit is adopted. The early retirement incentives were offered in February 2011, but the supplemental actuarial study was not completed until March 2011.

Also, the early retirement incentives could infringe on the State of Michigan Constitution of 1963, Article XI, Paragraph 3, which prohibits extra compensation to any public officer, agent or contractor after services have been rendered.

Recommendation 2011-14 – Significant Deficiency

To ensure fiscal transparency over the provisions for provision of benefits beyond established compensation and benefits pay rates, we recommend all future personnel-related financial initiatives proposed by the CEO are in accordance with Enrolled Ordinance No. 2012-096, the County Benefits Ordinance. Also, the administration should develop formalized policies and procedures to provide implementation guidelines as to how to comply with this new ordinance.

Views of Responsible Officials

CEO and Personnel Human Resources Management disagree with the finding.

Specifically, management does not agree with the finding that is expressed as the CEO "appears to have implemented conflicting courses of action to accomplish reducing the deficit," based on juxtaposition of imposed pay reduction on AFSCME employees, revisions to the CEO's Executive Benefit Plan, and the 2011 early retirement incentive. We disagree with the basis of your analysis.

1. The cause of the deficiency is identified as the CEO's ability to "establish provision of benefits beyond established compensation and pay rates without advising the Commission." However, the finding offers no evidence there was any violation, of any nature, by any party in establishing the benefits at issue. The "cause" assumes facts contrary to reality – i.e., that the requirements of County Benefits Ordinance were in force a year before the ordinance was adopted.

2. The only reasonable way to assess deficit reduction measures is to actually assess whether the measures ultimately produce cost/spending reductions. In other words, it is not enough simply to place direct reductions in salary in counterpoint to a retirement incentive that includes fiscal outlays on the front end, when the incentive results in savings on the back end from the elimination of salaries and fringe benefit costs for the retirees is realized.

3. Management is committed to the principle of transparency in providing benefits, and to complying with all lawful policies and procedures that the County establishes. To that end, the County Executive has implemented an approval process through his Executive Ethics Policy. This policy states, "The Executive Benefit Plan may be revised as needed by the department of Personnel/Human Resources as a result of market trends, strategic direction, and the health and well-being of the employee population.

   The plan Document must be approved and signed by:

   CEO
   Director of Personnel/Human Resources
   Chief Financial Officer
   Corporation Counsel

   The CEO and/or Executive Appointee shall inform the Retirement Commission in writing of any revision to a retirement benefit prior to implementation. The CEO shall inform in writing the Chair of the Wayne County Commission of any revisions or supplements to the Executive Benefit Plan prior to implementation."

Conflicting Dates – Early Retirement Incentive

Condition

Administrative Personnel Order 2-2011, signed by the Personnel Director on February 11, 2011, stated, in part, "...the County of Wayne is offering the following one time retirement incentive to active employees within the County Executive Department covered by the Benefit Plan for Executive and Non-Executive Exempt Employees."

Item #13 of this order states: "To be eligible to receive the benefits of this retirement incentive, employee must sign and deliver the agreement posted on the intranet under Personnel Forms (Separation Agreement and release and waiver of claims for employees of the Wayne County Executive covered by the Executive and Non-Executive Benefit Plan for exempt employees) with his/her original witnessed signature to Mr. Timothy Taylor, Director of Personnel/Human

Resources, 500 Guardian Building, 9th Floor, Detroit, MI 48226 on or before February 11, 2011."

Other correspondence from the Director of Personnel/Human Resources to employees eligible to accept the early retirement incentive stated that this "…was offered to county appointees on January 25, 2011…." This is approximately three weeks before the Administrative Personnel Order was dated and signed by the Personnel Director. Thus, there are conflicting dates as to what constituted the actual "offer day" of the retirement incentive to eligible employees.

A review of 33 signed separation agreements disclosed that 20 of the 33 agreements were accepted either prior to, or after the effective date of the Administrative Order.

- Eighteen (18), or 55%, were signed prior to February 11, 2011. It appears that these employees accepted the early retirement incentive before it was officially offered by Administrative Personnel Order 2-2011
- Two (2), or six percent, separation agreements were signed *after* the required acceptance due date; one 17 days after; and the other 27 days after. However, both employees still received the severance package.

Criteria

According to a senior management official in the Department of Personnel/Human Resources, the effective date of an Administrative Personnel Order is the date it is signed by the Director of Personnel unless it contains a retroactive effective date. In addition, the conflicting dates could raise legal questions as to the validity of certain contracts that were signed before the Administrative Order was actually issued and after the expiration date of the offer.

Cause

Personnel senior management stated this most likely was the result of an administrative/clerical oversight. Management believes a meeting was held to discuss the retirement incentive and copies of the separation agreement were distributed to some individuals attending the meeting. Some of these individuals submitted the completed forms prior to the Administrative Personnel Order offering the incentive was issued.

Consequences

Accepting signed contracts, before they have been formally offered, inhibits the county's ability to modify or rescind a potential contract and exposes the county to potential litigation.

Recommendation 2011-15 – Significant Deficiency

We recommend the management in the Office of the County Executive and Personnel/Human Resources work with Corporation Counsel to ensure that Administrative Orders are approved before being offered to, and accepted by; county employees and no offers are accepted after the expiration date of the offer.

Views of Responsible Officials

Management agrees with the finding.

The engagement finding indicated that a number of eligible employees signed the document approximately three weeks before the Administrative Personnel Order was dated and signed by the Personnel Director. Upon investigation, it appears that an informational meeting took place on or about January 25, 2011 for those potentially eligible for the incentive. During that meeting, some employees actually signed the document at that time. It was later that the official Administrative Personnel Order was signed by the previous Personnel/Human Resources Director.

Again, the CEO and Personnel/Human Resources Management agree that the policy going forward is that the Administrative Personnel Order must first be in place prior to the execution of the incentive agreements. The Personnel/Human Resources office will adhere to this procedure relating to all the Administrative Personnel Orders.

The Deputy CEO stated that the County Executive's Office has implemented a new ethics policy. In addition, any future severance payments will require the approval and signoff of 4 to 5 key individuals.

Confidential Deferred Severance Agreements

Condition

As an added incentive, the CEO changed the Executive Benefit Plan in December 2010 for executive and non-executive exempt employees that increased the severance lump sum payments to 24 weeks of wages, sick leave bank from 160 hours to 320 hours, and vacation leave bank from 216 hours to 432 hours. In connection with the change to the benefit package, the CEO entered into a confidential deferred severance agreement with 16 key county employees on or about February 11, 2011.

Deferred Severance Agreements

- Administrative Personnel Order 2-2011, dated February 11, 2011, offered a "...one time retirement incentive to active employees within the County Executive Departments covered by the Benefit Plan for Executive and Non-Executive Exempt Employees...."
- The early retirement incentive was offered to over 200 county employees.
- 37 employees accepted the early retirement incentive. However, an additional 16 employees expressed intent to retire under this incentive. They each received a confidential deferred severance agreement not to do so.
    - The letters to the 16 employees contained the following statement: "Any breach of confidentiality on your part will render the Separation Agreement terms and the terms of this letter null and void. All other terms of employment remain the same."
    - On October 14, 2011 a letter was sent to each of the 16 employees rescinding the deferred severance agreement.
    - Six (6) of the affected employees filed a class action lawsuit to overturn the county's rescinding of the severance agreements. The court ruled in favor of the plaintiffs.

- The sixteen (16) deferred severance agreements were deemed to be legally enforceable contracts. The total value of each agreement was in excess of $50,000.

Criteria

Prior to the Fiscal Year 2011 budget process, the county's previous personnel director stated in his Administrator Personnel Order 2-2011, that staffing levels have again become an issue of concern and the county will need to reduce its staffing levels.

Cause

According to management, these early retirement incentives were offered to reduce personnel cost within the county. Additionally, senior management elected to offer confidential deferred severance arrangements to 16 of the 200 employees because they were considered key employees and necessary to maintaining continuity of county operations.

Consequences

There are instances where the county has not been transparent regarding certain personnel matters. The financial impact of the deferred severance agreements, if accepted by all 16 employees, could result in payments up to the amounts detailed in the table below:

Financial Impact – Deferred Severance Agreements	
Compensation Provision	**Amount**
Lump sum payment upon separation from employment	$0.8 million
Sick leave bank payout	$0.2 million
Leave bank payout	$0.3 million
Total	$1.3 million

There are also some additional retirement benefit costs for one (i.e., former Deputy CEO) of the 16 individuals that is not included in the $1.3 million calculation for compensation related to separation, sick, leave, and vacation time.

Because of additional incentives the CEO offered him, we have prepared a separate calculation for his compensation - see issues related to recommendation 2011-18.

Recommendation 2011-16 – Design Control Deficiency

To ensure fiscal transparency over the provisions of benefits beyond established compensation and benefits pay rates, we recommend the Office of the County Executive ensure future personnel related financial initiatives proposed by the CEO are in accordance with Enrolled Ordinance No. 2012-096, the County Benefits Ordinance.

Views of Responsible Officials

CEO and Personnel/Human Resources Management disagree with the finding.

The finding identifies as a "Control Deficiency Design" the recommendation that future financial initiatives comply with the new County Benefits Ordinance. The action at issue, the early retirement incentive, was rolled out in early 2011. The Benefits Ordinance took effect in March 2012. Management does not understand how failing to comply with an ordinance that was not in effect until more than a year after the 2011 incentive offering constitutes a reportable deficiency.

Management is committed to the principle of transparency in providing benefits, and to complying with all lawful policies and procedures that the County establishes.

Multiple Deferred Severance Agreements – Deputy CEO

Condition

In a memorandum to the Payroll Information Unit, the Director of Personnel/Human Resources stated that in the course of reviewing the salary plan and wages for the classified service, it was discovered that the salary of the former Deputy CEO was at a lower level than some department heads who reported to him. Consequently, his salary was increased effective November 3, 2008. Subsequently, the former Deputy CEO deferred his salary increase until the county's fiscal health improved or he separated employment from the county.

The County Executive, on January 14, 2009 wrote a memo to the Director of Personnel/Human Resources and the Chief Corporation Counsel regarding the salary deferment of the former Deputy CEO. Pertinent items from this memo pertaining to components of deferred compensation included the following:

- **Salary Adjustment** – When the county's fiscal health is restored, the former Deputy CEO would receive a pay rate that exceeds all department heads, retroactive to February 17, 2005.
- **Separation** – if the Deputy CEO separated from the county (voluntarily or by death) prior to receiving the salary adjustment, there would be a minimum separation payment of $300,000. Depending on the retirement plan the Deputy CEO was in, the separation payment could increase to a maximum of $350,000.
- **Retirement Benefits** – the Deputy CEO was granted the ability to purchase into Plan 5. There was also the option to purchase into Plan 6 – Defined Benefit Plan.
- **Separation due to death** – options available included:
    - If the Deputy CEO was a member of Plan 4, his estate had the options:
        - To continue to receive his salary for 20 years; and/or
        - Buy into a hybrid retirement benefit plan
    - All benefits were to be interpreted in a manner that maximize benefits.
    - Survivorship/spousal benefits were immediate.

- As an added incentive, the CEO changed the Executive Benefit Plan in December 2010, to executive and non-executive exempt employees that increased the severance lump sum payments to 24 weeks of wages, sick leave bank from 160 hours to 320 hours, and vacation leave bank from 216 hours to 432 hours. In connection with that benefit package, the CEO entered into a confidential deferred severance agreement with 16 key county employees, including the Deputy CEO, on February 11, 2011.
    - On October 14, 2011 a letter was sent to each of the 16 employees rescinding the deferred severance agreement.

- Six (6) of the affected employees filed a class action lawsuit to overturn the county's rescinding of the severance agreements. The court ruled in favor of the plaintiffs.
- The sixteen (16) deferred severance agreements were deemed to be legally enforceable contracts.
- On January 11, 2012 the former Deputy CEO filed a $25 million lawsuit against the CEO of Wayne County, and certain other county officials claiming, among other items, violation of the Michigan Whistleblowers' Act, wrongful discharge, and breach of contract. (i.e., separation agreement).
- The value of the Deputy CEO's severance agreements could range from approximately $118,000 to $350,000. (See table below.)

Criteria

Compensation agreements should be transparent, equitable and subject to oversight by the Wayne County Commission.

Cause

According to senior executive management, the Deputy CEO was offered a deferred severance package due to his voluntary deferral of a salary adjustment in light of the county's current fiscal health.

Consequences

Should the county have to honor the Deputy CEO deferred severance arrangement, the financial impact of the deferred severance agreement for the former Deputy CEO is detailed in the table below:

Financial Impact – Deputy CEO Deferred Severance Agreement	
Compensation Provision	**Amount**
Lump sum payment upon separation from employment	$70 thousand (24 weeks) to $350,000
Sick leave bank payout	$17 thousand
Leave bank payout	$31 thousand
Total	$118 thousand to $350,000

Formalizing special compensation arrangements reduces transparency over personnel matters, and potentially has both current and long-term monetary impact on county financial obligations.

Recommendation 2011-17 – Significant Deficiency

To ensure fiscal transparency over the provisions of benefits beyond established compensation and benefits pay rates, we recommend the Office of the County Executive ensure future personnel related financial initiatives proposed by the CEO are in accordance with Enrolled Ordinance No. 2012-096, the County's Benefits Ordinance.

Views of Responsible Officials

As an initial caution, the County currently is in litigation with Mr. Elder that arose from his departure from the County. Consequently, it is not in the County's interest to divulge or discuss the details of the document described in the finding, particularly when the document is at issue in the litigation.

To the extent compliance with the Benefits Ordinance is part of the finding or recommendation, management is committed to the principle of transparency in providing benefits, and to complying with all lawful policies and procedures that the County establishes.

Noteworthy Accomplishments

- Management & Budget senior management strengthened payroll review process by implementing a tiered review/approval level for gross pays in excess of $5,000.
- Personnel/Human Resources – Benefits Division strengthened security controls over confidential employee data.
- Wayne County Treasurer's Office and Management & Budget – Central Payroll are improving review and escheating of old outstanding payroll checks.
- Personnel/Human Resources is creating a County-wide succession plan.
- New employee hiring process includes:
    - Drug screens (for certain departments/classifications)
    - Fingerprinting (on Police Officers)
    - Background checks
    - Reference checks/verifications.
- After the protest of the pay out to the former Director of the Economic Development Growth Engine (EDGE), the administration has established several key operational controls to mitigate future occurrences of this nature:
    - All employees' compensation in excess of $5,000 on a bi-weekly basis requires the approval of the CFO.
    - The Department of Management & Budget revised Policy No. 10011, effective October 25, 2011, to establish an approval process for compensation packages for certain appointees. These appointees are identified in Wayne County Charter Section 4.385, which includes, but are not limited to, the Deputy CEO, directors, deputy directors, and others that are appointed by the CEO. Compensation packages for these individuals must now be approved by Personnel, Corporation Counsel, the CFO and CEO prior to submitting the package to the Commission for approval.
- The CEO issued a new ethics policy, dated February 9, 2012, that states:
    - "The CEO shall inform, in writing, the Chair of the Wayne County Commission of any revisions or supplements to the Executive Benefit Plan, prior to implementation.
    - "The CEO and/or Executive Appointee shall inform, in writing, the Retirement Commission regarding any revision to a retirement benefit prior to implementation."

- The Commission enacted Enrolled Ordinance No. 2012-096, the County Benefits Ordinance, which addresses fiscal transparency over provision of benefits beyond established compensation and pay rates.
- The Wayne County Commission amended Section 73 of the Fraud Investigation Policy Ordinance to establish the Wayne County Fraud and Correction Investigation Unit and provided $200,000 funding for it in the fiscal year 2012 – 2013 budget.
- The Wayne County Employees Retirement System Board of Directors adopted State of Michigan Public Act 728 – Supplemental Actuarial Valuation.

OAG OVERALL CONCLUSION

Based on our review of Central Payroll and Personnel/Human Resources payroll processes, established policies and procedures and implemented controls, management appears to have an adequate internal control environment. However, we did find areas within the processing of routine transactions, removing employees' access rights to the county's system after retirement or termination, lack of cross training and succession planning.

There are seventeen (17) findings and recommendations related to this report. Nine (9) of the recommendations are considered to be operational and design control deficiencies which are classified as relatively low risk.

Eight (8) recommendations are classified as significant deficiencies which are deemed to be medium risk and could have an immediate negative impact on the County's payroll transaction processes. The significant deficiencies were noted in the following areas within payroll processes:

- **M&B – Central Payroll**
  - Establish policies and implement procedures for the escheatment of outstanding payroll checks.
- **Personnel/Human Resources**
  - Establish review procedures to ensure non-routine payroll transactions are properly supported and approved.
  - Ensure any proposed benefit changes have the required actuarial valuation performed within state law mandated timeframes.
  - Review policies and procedures regarding safeguarding of employee confidential information.
- **DoT**
  - Ensure timely notification of separated employees' account terminations.
- **County Executive**
  - To ensure fiscal transparency, all future personnel related financial incentives proposed by the CEO are in accordance with Enrolled Ordinance No. 2012-096, the County Benefits Ordinance.

Management agreed in principle with most of the seventeen (17) recommendations and has begun or intends to implement corrective action to address the conditions found.

A corrective action plan will be due within 30 days after this report is formally received by the Wayne County Commission. If sufficient corrective action is not taken, a follow up review may be necessary.

This report is intended solely for the information and use of Central Payroll and Personnel/Human Resources officials and is not intended to be and should not be used by another other than these specified parties. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

Sincerely,

Willie Mayo, CPA, CIA, CGAP, CICA
Auditor General

Appendix

Control Deficiency (low risk)

A control deficiency exists when the internal control design or operation does not allow management or employees, in the normal course of performing their assigned functions, to prevent, detect or correct errors in assertions made by management on a timely basis. A deficiency in design exists when (1) a control necessary to meet the control objective is missing or (2) an existing control is not properly designed is that, even if the control operates as designed, the control objective is not met.

A deficiency in operation exists when a properly designed control does not operate as intended, or when the person(s) performing the control does not possess the necessary authority or qualifications to perform the control effectively.

Significant Deficiency (medium risk)

A matter that, in the auditor's judgment, represents either an opportunity for improvement or significant deficiency in the management's ability to operate a program or department in an effective and efficient manner. A significant deficiency in internal control, or combination of deficiences, that adversely affects the organization's ability to initiate, authorize, record, process or report data reliably in accordance with applicable criteria or framework such that is more than a remote likelihood that a misstatement of the subject matter that is more than inconsequential will not be prevented or detected.

Material Weakness Deficiency (high risk)

A significant deficiency that could impair the ability of management to operate the department in an effective and efficient manner and\or affect the judgment of an interested person concerning the effectiveness and efficiency of the department. A significant or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of subject matter will not be prevented or detected.