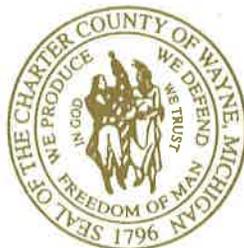


Office of Legislative
Auditor General

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November 12, 2012

FINAL REPORT TRANSMITTAL LETTER

Honorable Wayne County Commissioners:

Enclosed is our final copy of the Office of Legislative Auditor General's follow-up review report on the Departments of Public Services, Personnel/Human Resources, and Management & Budget, Allocation of Salaries and Fringe Benefits. Our report is dated, July 18, 2012; DAP No. 2012-57-006. The contents of this final report did not substantially change from the draft report previously issued. The report was accepted by the Audit Committee at its meeting held on Thursday, October 4, 2012, and formally received by the Wayne County Commission on October 18, 2012.

We are pleased to inform you that officials and staff in the Departments of Public Services, Personnel/Human Resources, and Management & Budget offered their full and complete cooperation during the review. 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 purposes. 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

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Wayne County Executive



County of Wayne, Michigan

**DEPARTMENT OF PUBLIC SERVICES,
PERSONNEL/HUMAN RESOURCES,
and
MANAGEMENT & BUDGET**

Allocation of Salaries and Fringe Benefits

FOLLOW-UP REVIEW

July 18, 2012

Report Summary

The OAG issued a consulting report on the Department of Public Services, Allocation of Salaries and Fringe Benefits. This report was dated June 18, 2007; DAP No. 2005-57-014 and contained two recommendations. In addition, we identified four more recommendations in a subsequent CAP report issued by our office dated December 13, 2011; DAP No. 2011-57-004, which was communicated to the Audit Committee on January 24, 2012.

This is a follow-up review of those two reports. A follow-up review is performed to determine the status of the recommendations. Based on our review, two recommendations are resolved, and the other four are still unresolved as of the date of this report. Due to the significance of the four unresolved findings, another corrective action plan will be requested in the near future to determine if management has taken sufficient action to address the four unresolved recommendations contained in this report.

Report Conclusion

As of May 3, 2012, there were 172 county employees classified as appointees. We have identified the most significant risk related to 68 classified appointees that are costing the county

more than \$8 million on an annual basis; for 27 of the 68, or 40 percent, we could not determine from reviewing their job description what specifically was their assigned job duties and responsibilities; for the remaining 41 appointees, who held similar job titles, they were assigned to various county departments. According to senior management, all of these individuals' job responsibilities are solely for their assigned departments. As of our report date, we requested but were unable to obtain their specific job descriptions.

Therefore, we believe the administration should match these appointees with identifiable county projects that they are expected to work on during the year. Further, executive management should make the determinant factor for the number of additional appointees that are needed over and above the 104 appointees we were able to identify as essential for managing county operations.

In conclusion, at a minimum, we believe all 68 of the CEO appointees should be reported in the CEO's business unit in order to promote transparency and accountability and their cost be allocated as indirect cost to other business units based on current statistics being used by the CEO business unit.

OBJECTIVE

To assess what measures management officials in the Departments of Public Services (DPS), Personnel/Human Resources (P/HR), and Management & Budget (M&B) have taken to address the recommendations contained in the consulting report titled the Department of Public Services, Allocation of Salaries and Fringe Benefits. The report was dated June 18, 2007; DAP No. 2005-57-014 and the subsequent report dated December 13, 2011; DAP No. 2011-57-004.

SCOPE

In accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States, and the International Standards for the Professional Practice of Internal Auditing, issued by the Institute of Internal Auditors (IIA) auditors should establish a follow-up process to monitor and ensure that management's corrective action plans have been implemented to address reported recommendations.

The scope of our review was limited to assessing the measures taken by management officials regarding the Allocation of Salaries & Fringe Benefits consulting report's recommendations for the purpose of determining whether they are resolved, unresolved, in-process, partially resolved, or no longer applicable. Our review covered the period after the original consulting report date (or the date the recommendations were implemented) through the date of this report. This engagement was completed in July 2012. Our follow-up was conducted in accordance with the GAGAS and IIA standards.

METHODOLOGY

We made inquiries and had discussions with appropriate officials within the Department of Management & Budget to assess what measures had been taken to address the recommendations contained in the consulting report. We also examined documents, and performed other procedures deemed appropriate to assess management's assertions regarding action taken.

BACKGROUND

There have been numerous discussions with the administration as to the accountability of appointees' time. The OAG performed a consulting engagement entitled "Allocation of Salaries and Fringe Benefits" dated June 18, 2007. In that engagement, there were two recommendations pertaining to time being charged by appointees working in the Department of Public Services. We found that nine appointees with a total cost of \$1.1 million who worked in other departments were being arbitrarily charged to Roads, Parks and Building & Grounds Maintenance Funds.

The OAG performed an assessment of their corrective action plan on December 13, 2011, which resulted in four additional recommendations and it was stated at that time by the administration that their policy is to place appointees in certain departments and rotate them on an annual basis.

As of March 16, 2012, M&B issued a memorandum refining their allocation policy and stated that they were transferring 24 positions to the general fund, non-departmental and creating a Central Services Indirect business unit. The memo also stated personnel costs would be charged back to all CEO managed departments, such as, Roads, Parks, Mental Health, Health and Human Services, etc. We subsequently received a report from the Department of Personnel/Human Resources, dated May 3, 2012, that identified 27 appointees reclassified into the Central Services business unit.

Our follow-up report is based on subsequent discussions and corrective actions by management to address the recommendations in the corrective action plan that was discussed at the audit committee on January 24, 2012.

RECOMMENDATION #05-01

STATUS: UNRESOLVED

We recommended DPS management request executive appointees that work for the department use the county's authorized Time Distribution Log or a similar document. This document would provide information to identify the specific assignments and/or projects worked on by appointees and strengthen controls over the county's timesheet reporting requirements. Management should make executive appointees aware of the policy regarding the utilization of the Time Distribution Log or a similar document.

VIEWS OF RESPONSIBLE OFFICIALS

There is no correlation between job titles and the central service personnel selected in the new chargeback. The 41 persons the OAG has identified have direct duties in the departments they serve and do not perform duties across the organization.

The job description is not descriptive due to the various projects the employees maybe working on at any given time. Also, Plante & Moran, the County's independent auditors, reviewed the plan and methodology and believe we are within the accounting guidelines. Many chargebacks, including the allocation of the OAG, are not based on time keeping records and the costs have never been questioned.

Specifically, Circular A-87 states: "Indirect costs are those: (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved"

AUDITOR COMMENT

The Office of the Legislative Auditor General (OAG) met with M&B senior management and believes the establishment of the Central Service business unit and the revised allocation method is an improvement over the previous method being used; however, upon closer review we have several concerns:

- ❖ As of May 3, 2012, the CEO has 172 appointees being employed by Wayne County and we were able to readily identify 104 of them functioning in the capacity as department directors, deputies or some other supporting role function within county operations. However, there are at least 68 appointees, not 24 as stated by M&B, whose job description was either generic or we were unable to obtain for review. As a good starting point, we believe these 68 appointees should be reclassified to the Central Business unit.
- ❖ There are several support staff members that work exclusively in the CEO's business unit but they are not being charged to the CEO's business unit, such as secretaries, receptionists, clerical, etc. A more practical solution would be to reclassify these employees into the CEO's business unit since their job function is to support the CEO's management team.
- ❖ The same job description is being used for all 27 appointees charged to the Central Service business unit. In the introductory paragraph of the job description narrative, it states "these individuals will report to the Chief of Staff, Chief Operating Office and the Chief Financial Officer; this position serves as the project manager for special projects for the office of the County Executive." However, the job descriptions do not make reference to other employees' that are functioning in non-managerial support roles.
- ❖ In our analysis we have identified 41 appointees that have no specific job assignments

and have contacted Wayne County Personnel Department and requested qualifications and job descriptions for those employees. They have not provided this information to-date.

- ❖ There are no policies and procedures which establish the criteria to identify those appointees who are to be placed in the Central Service business unit. The establishment of policies and procedures will help to promote uniformity and consistency from year to year.
- ❖ These 68 appointees are costing the county \$8.2 million in salaries and fringe benefits on an annual basis. Since these employees will be reporting to certain designated CEO personnel, we believe it would create more transparency and accountability if these individuals were reported in the CEO business unit instead of reporting them in a newly created Central Service unit
- ❖ Management and Budget stated the Central Service business unit cost will be allocated based on FTE in each business unit to only CEO managed departments. However, we do not believe this allocation method is equitable and best practice dictates that costs should be allocated to all departments based on benefit being derived after adjustments are made for general government expenses.
- ❖ Under the proposed plan, allocations of costs are being made to special revenue funds, such as, Roads, Parks, Health and Human Services, Mental Health, Department of Children and Family Services, which calculates to more than \$2.7 million, without supporting evidence of actual benefit being derived. More specifically, the allocation of cost to special revenue funds should be based on time keeping records to support the projects being worked on; otherwise the cost could be disallowed.

Based on management's comments, we deem this recommendation as unresolved and additional work will be performed by our office in the near future.

RECOMMENDATION #05-02

STATUS: UNRESOLVED

We recommend Management & Budget officials consider revising the Time Reporting Policy, No 12003, to require executive appointees who provide administrative services to other County departments, divisions, programs, etc., prepare a Time Distribution Log or similar document identifying the specific assignment or projects worked on. This would enhance accountability and support charging and/or allocating their compensation costs.

VIEWS OF RESPONSIBLE OFFICIALS

Any executive appointee who provides administrative services, perform such services that relate solely to the department they are charged. The Time Distribution Log is required for employees

who perform services on more than one federal grant and are required to track their time by grant.

We believe the OAG has unfairly isolated the executive department. Is the OAG aware of any other elected officials that require their administrative staff to track their time by project and task?

AUDITOR COMMENT

The revised Time Reporting Policy, Section III (A), Self-Service Entry, states “by entering his/her time in the system and saving the time entered, the employee is verifying that the information is accurate.” Under Section D, Approval of Self Service Time Entered, it states “to ensure the timely and accurate processing of salaries and wages, the payroll approver *must examine* the payroll input in the system and ensure its accuracy and completeness.”

Given management’s statement that the 27 county appointees could perform special projects/assignments for various county departments/agencies within a given pay period, the policy does not speak to how an approver of their inputted work hours would be able to validate the accuracy of the hours reported. We believe a supplemental mechanism, such as swipe card reporting, to identify the hours worked per project, would provide the approver assurance of the accuracy of reported work hours. Further, this mechanism could be utilized to allocate the appointees personnel costs based on benefit derived.

Based on management’s comments, we deem this recommendation as unresolved and additional work will be performed by our office in the near future.

RECOMMENDATION #11-01

STATUS: RESOLVED

We recommend requiring a resume and job description for any executive appointee employee(s) charged to the administration business unit in DPS or other governmental funds, agencies, or programs.

VIEWS OF RESPONSIBLE OFFICIALS

Management concurs with this recommendation. All staff should have a job description, including those assigned to the Department of Public Services.

The 41 appointees work exclusively for the departments they are charged. We recommend the OAG contact Personnel and request the job descriptions.

AUDITOR COMMENT

We reviewed the job descriptions for 27 appointees being charged to the newly established Central Business unit and found them to be generic and non-descriptive. In addition, we have requested from the Department of Personnel/Human Resources, the job descriptions for another 41 appointees we identified that are assigned to county departments. As of our report date, we were unable to obtain that information; however, senior management in the Department of Personnel\Human Resources stated they are working on our request. We are now suggesting senior executive management and the Ways and Means Committee review job descriptions for all 68 appointees and allocate the county employees based on benefits being derived from departments served.

Based on management's comments, we deem this recommendation to be resolved.

RECOMMENDATION #11-02

STATUS: RESOLVED

We recommend requiring all appointees who charge time to governmental funds/agencies/program and component units sign their timesheets with the statement "The entries on this report are, to the best of my knowledge, complete and accurate." This would place added responsibility on the employees as to how their time is being charged.

VIEWS OF RESPONSIBLE OFFICIALS

Management concurs with this recommendation and stated work time for every employee that receives a paycheck from the county regardless of employee type (i.e. classified, executive, etc.) is currently reported to the Department of Personnel/Human Resources.

Management further indicated that they will review timesheets to ensure all employees have a certification statement.

AUDITOR COMMENT

We were able to verify that employees who report their time through the PeopleSoft system do have a certification which states by clicking the submission button that "the time you entered is true and correct". However, we were not able to verify that those employees who are not reporting their time through PeopleSoft also had a similar statement.

Based on management's comments, we deem this recommendation to be resolved.

RECOMMENDATION #11-03

STATUS: UNRESOLVED

To enhance accountability, and provide additional support for the work hours reported by

employees, we recommend the time reporting policy require a sign-in sheet, swipe card or similar automated mechanism be implemented since the County is moving toward implementing online payroll processing County-wide.

VIEWS OF RESPONSIBLE OFFICIALS

In this technology advanced era, we believe the OAG's recommendation is prehistoric and puts the County decades behind the rest of the world. The largest corporations in this country utilize electronic time keeping and have eliminated the use of paper.

AUDITOR COMMENT

Based on our review of the Policy and Procedures Statement No. 12003, it states employees of certain departments and elected officials, such as County Clerk, Third Circuit Court, and Probate Court do not complete paper time reports but have their time electronically captured (e.g. "swipe" badges). The electronic time is then transferred to the Department of Personnel/Human Resources/Payroll System.

The OAG is of the opinion because the County is moving toward implementing online electronic payroll processing countywide, all employees' reported work hours should be captured in some other mechanism to provide additional support and evidence for supervisory personnel responsible for the verification and approval of reported work time. We recommend the supporting mechanism be in an electronic format.

Based on management's comments, we deem this recommendation as unresolved and additional work will be performed by our office in the near future.

RECOMMENDATION #11-04

STATUS: UNRESOLVED

To strengthen legislative oversight and provide better transparency, we recommend the commission review and approve any appointees that are assigned to either an Internal Service Fund or a Special Revenue Fund.

VIEWS OF RESPONSIBLE OFFICIALS

The executive office will continue to comply with the county charter with respect to submitting specified appointees for review and approval by the commission.

To submit any additional non-specified appointees to this process would be inconsistent with the charter, and would not preserve the balance between the two branches which is central to the County Charter and the Michigan Charter County Act.

AUDITOR'S COMMENTS

While acknowledging the Charter's requirements, the OAG is not in agreement with management's assertions regarding the balance between the two branches of government.

We agree that Section 3.115(4) of the County Charter requires commission approval of the deputy CEO, department heads, and deputy directors.

While not required, in an effort to enhance transparency over the appointment of all executive appointees, we believe it would be in the best interest of the county if the county commission and the CEO reach a compromise on the number of appointees that can be employed by him and those employees who are assigned to special assignments be reported in the CEO business unit.

Based on management's comments, we deem this recommendation as unresolved and additional work will be performed by our office in the near future.

CONCLUSION

At present, only two of the six recommendations are considered resolved. The administration has made some progress over the accounting for appointees' salaries and fringes by placing them in a separate Central Service business unit. This is an improvement over the method of arbitrarily charging them to departments where services were not being performed and then rotating them on an annual basis.

We strongly encourage the administration to fully address the remaining four recommendations, as well as, provide full accountability for the 68 appointees that are classified as working on special projects in the CEO departments.

Due to the significance of the four unresolved findings, another corrective action plan will be requested in the near future to determine if management has taken sufficient action to address the four unresolved recommendations contained in this report.

This report is intended solely to provide information to the Wayne County Commission and Management and should not be used for any other purposes. This restriction is not intended to limit the distribution of the report, which is a matter of public record.


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