SALT LAKE COUNTY AUDITOR'S OFFICE

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Auditor

August 23, 2004

To: David Marshall, Mayor's Chief Administrative Officer
Darren Franchow, Information Services Director
Richard Chamberlain, Contracts & Procurement Director
Felix McGowan, Personnel Director
David Stanley, Public Works Director
Kerry Steadman, Human Services Director
Leslie Reberg, Community Services Director
Patti Pavey, Salt Lake Valley Health Department Director

Cc: Aaron Kennard, Salt Lake County Sheriff
Larry Richardson, Salt Lake County Treasurer
David Yocom, District Attorney
Sherrie Swensen, Salt Lake County Clerk
Gary Ott, Salt Lake County Recorder
Lee Gardner, Salt Lake County Assessor
Vaughn Butler, Salt Lake County Surveyor
Darrin Casper, Council Fiscal Analyst

Re: Audit of Salt Lake County's Payroll Master File and Related Data Bases

Dear County Administrators and Elected Officials:

As reported in this August 10th edition of *The Salt Lake Tribune*, the County Auditor's office has tapped the potential of a powerful, new auditing software tool, ***Audit Command Language***, which goes by the trade name: ***ACL***. This software enables us to:

- Have access to virtually any data source, without advance preparation or conversion of the data, in most cases, and on a "read-only" basis, so data cannot be corrupted.
- Perform queries and data manipulation on files that, with other analysis software would have required extensive manual preparation and conversion.
- Combine data from dissimilar systems for conversion, reconciliation and control.
- Create a common view of data coming from different files, as if the data existed in one file.
- Clean up and manipulate extensive data to allow flexible report creation and formatting.

SALT LAKE COUNTY GOVERNMENT CENTER

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We have been perfecting our skills using *ACL* over the past couple of years, experimenting with relatively small data base applications. This audit of the County's Payroll Master File and related data bases, looking back over a two-year period, from November 11, 2003, was our first test of the software on a combination of large data bases. We are pleased to report that the software does provide the user-benefits outlined above, and it is very thorough and incredibly fast in providing answers to well-structured inquiries. We are also happy to report that the County's payroll system, by and large, is functioning effectively and in accordance with federal and state laws and regulations in the areas we examined.

We begin this report with an Executive Summary.

Executive Summary

The Internal Audit Division recently conducted a review of two years of payroll transactions. Our primary objective was to review the County's payroll system for errors, unusual transactions, and/or transactions that might indicate fraud. County IS conveyed the information used in our analysis in delimited text files via email. The review was divided into three sections: *Payroll Master File, Payroll Data* (reviewed by quarter), and *Vendor Data*. Each section is discussed in depth in the main body of this letter.

Payroll transactions for 2002 and 2003 were provided in eight quarterly files, each containing approximately 40,000 records. In all, over 300,000 transactions were analyzed, relating to over $242 million in net pay. Each pay transaction contained the employee's social security number, leave taken, amounts withheld and amounts paid. In order to view information about the employee, such as their name, organization, and status, each quarterly file was either joined or related to a payroll master file containing the record of 12,676 current and former employees.

The vendor file provided by IS contained 18,874 vendor records. Vendor name, address, phone number and federal ID number were included. The amount paid to each vendor was also provided, and was broken down into three columns: total payments since established ($3.8 billion), total payments during 2003 ($314 million) and total payments from January to June 2004 ($120 million). Vendor data was compared to the payroll data base in an effort to uncover possible employee/vendor conflicts of interests.

Our examination of the County's payroll system produced several positive findings. These are enumerated below without detailed comment.

- **Vacation was accrued at the rates established in County Policy.**
- **Vacation balances were within amounts allowed by County Policy.**
- **Sick leave was accrued at a rate in accordance with County policy.**

- **"Gross" and "net" pay calculations within the payroll system function correctly.**

- **Section 125 Cafeteria Plan contributions were within legal restrictions.**

Highlighted below are certain of the more significant findings and recommendations with expanded commentary.

1. Duplicate addresses could not be detected due to a lack of standardized data entry.

We were unable to make comparisons on the "address" field because there were several different ways to input an address. Any variation made finding duplications virtually impossible. For example, **"24 West First Street"** could also be entered as **"24 W. First St," "24 W. 1st Street,"** or other composition.

Countywide Policy #1002, "Standard Address Procedures," states that the County will use standardization of addresses *"that allow a uniform and consistent method for county personnel to enter information into computer files…"* and to have *"conformity that will allow the integration and comparison of information in different computer files using the address as a common key."*

We recommend that new employee addresses be entered in the standard form in accordance with Countywide Policy #1002. We further recommend that all employee addresses be reviewed and corrected, if necessary, so that addresses are in the standard form for comparison. Achieving standard formatting of payroll and personnel record addressing would represent a major achievement not yet attained over decades of effort.

2. Twenty-one employees under the general pay plan were paid above the maximum amount allowed for their grade. The Health Department had the most employees paid above the grade maximum.

Out of 3,062 active employees within the County's General Pay Plan, 21 employees were paid an average of 5.2 percent above their current grade maximum. Percentages paid over the grade maximum ranged from 1.1 to 12.1 percent. As expected, all of the employees had significant years of experience working for the County, with an average of 22 years of service, ranging from 10 to 36 years. The Health Department, with six of the 21 employees, had the most employees paid above their grade maximum, followed by the Jail and Criminal Justice Services with three each. It may be worthwhile for Health Department to review the classification of these employees and to validate their respective pay ranges, with input from Personnel.

We recommend that the Health Department review the classification of these employees, in consultation with County Personnel to validate appropriate pay scales.

3. Thirty-eight temporary employees were paid above the maximum amount allowed for their grade. The Fire Department had the most employees paid above the temporary grade maximum.

Out of 3,407 active employees within the temporary pay plan, 38 employees (1.1 percent) were paid an average of 12.8 percent above their current grade maximum. Percentages paid over the grade maximum ranged from 1.4 to 42.3 percent. The majority of these, 84.2 percent (32), were Fire Department employees.

According to the Fire Department payroll coordinator, these were seasonal positions related to Wild Land fire operations and were approved by the Mayor's Office. The increase in pay was intended to better approximate the State Lands and Forest Service rates. Three of the remaining six are employees that have retired and then returned to work on a part-time, temporary basis. These six employees worked for the County an average of 28 years.

We recommend that Fire Department temporary pay scales be reviewed and increased as appropriate, realizing this is now an issue with the newly formed United Fire Authority.

4. Employees claimed "exempt" status or increased the number of dependents they claimed during pay periods containing additional earnings.

Fraudulent or ghost employees often have "zero" payroll taxes withheld, to avoid the risk of detection by State and Federal officials resulting from an invalid tax filing. We tested each pay period for employees with no state withholding. The result was 1,201 records, relating to 199 employees. Legitimate reasons for no State withholding are *insufficient income, claiming a large number of dependents, or claiming exempt status.*

We reviewed records of 11 employees who had claimed "zero" state withholding for 30 or more pay periods. We reviewed an additional 15 employees by accessing the payroll function of CICS. Each of these additional 15 employees had claimed either complete "exempt" status or a large number of exemptions. At least five of the employees we reviewed changed their withholding status coincident with pay periods when they received significant overtime pay, or an incentive bonus.

The County Jail had 54 employees, the highest number, claiming "exempt" status from state withholdings or a large number of dependents. Those 54 employees constitute 27.1 percent of all County employees with no state withholding, out of proportion with the Jail's percentage of County employees, only 6.7 percent. Notably, one of the 15 employees we selected for closer review was a jail employee who worked 79 hours of overtime for pay period ended February 28, 2002, and then 77 hours for pay period ended March 15, 2002, during the period of the Winter Olympic Games. For this employee, these pay periods had by far the largest amount of overtime for that year. The pay periods from February 15th to March 15th were also the only pay periods in which he claimed a large number of dependents, apparently in an effort to avoid the federally mandated 20 percent tax withholdings that would have resulted.

This was confirmed by the County Payroll Supervisor, who indicated that frequent changes in withholding status by Sheriff's Office employees had resulted in the Sheriff limiting, to two per year, the number of W-4 form changes employees could submit.

A similar situation was discovered at Solid Waste Management. With 10.6 percent (21) of all employees with no State tax withholdings, Solid Waste Management's share also appears disproportionate to its .7 percent of all employees. Further research revealed that 18 of the 21 employees temporarily changed their withholding status for those pay checks containing a bonus, typically $970.99 or $1,000. (County policy restricts incentive awards to under $300, but Division's with a written policy which is approved by the Mayor's Office, can award bonuses in greater amounts.)

The County's Payroll Supervisor indicated that they have actively discouraged payroll technicians from allowing employees to change their withholding status during pay periods in which they would receive a higher than normal amount of pay.

We recommend that exempt status and increases in the number of dependents only be allowed for legitimate purposes, not to temporarily decrease tax withholdings.

5. There were 1,815 vendor numbers that had been assigned to vendors with more than one vendor record.

Some duplicate names contained different addresses, suggesting payments remitted to different business branches or departments. Other vendors, however, had the same address and/or phone number, suggesting duplicate vendor set-ups for the same business or individual contractor.

The County Auditor's Accounts Payable Team Leader indicated that purchasing clerks are instructed, when paying a vendor the first time, to first determine whether a number has already been assigned to that vendor. Clerks either fail to check for an existing vendor number, or they may be unable to find the vendor in the system, resulting in a duplicate vendor set up. If a duplication is detected after a payment has been made on the new account, the second vendor record can not be deleted until four years has passed. The duplicate account can be flagged with "do not use."

With duplication of account numbers, account management, such as determining historical amounts paid, and processing of current payments, becomes more difficult. The establishment of 'dummy' vendors also becomes more difficult to detect.

We recommend that each vendor be assigned only one vendor number and that a more rigorous procedure be established to screen vendors for existing account numbers prior to setting up a new account.

6. We discovered 26 vendors with phone numbers and/or addresses that matched those of a County employee.

Non-standard entry of phone numbers and addresses made a complete, 100 percent comparison of the vendor and employee databases using those fields impossible. We were able to detect some duplication, however. We then excluded vendor accounts under the name of an individual, instead of a company, because payments for employee travel expenses and reimbursement of County imprest funds are also made through the accounts payable system.

We found 14 instances were an employee's home address matched a vendor's primary address, 20 instances were an employee's home address matched a vendor's "alternate address," and nine instances were an employee's home telephone number matched a vendor's telephone number. After accounting for overlap between the various matching fields, there were 26 vendors with one or more fields with data matching 27 employees.

Fourteen of the 27 employees worked under the same organization that paid the vendor. Ten of the 27 employees worked for the County during the same time period the vendor received payment from the County. Three of the matching vendors appeared to be in-patient treatment centers, where it is most likely that the County employee was receiving treatment. Another three vendors showed no record of having ever been paid.

The following vendor/employee matches appeared most significant:

- A cumulative amount of $3.7 million has been paid by several County organizations to a construction company. Expenditures appear under facilities maintenance line items. The address of this company matches that of a temporary employee from the Sheriff's Office. The employee was hired in March of 1999. The company responded to an RFP in 2001 and since then has had a contract with the County which expires in the Spring 2005. There is no record of the employee filing a disclosure statement with the County legislative body.

  The significance of this match is mitigated by the employee's status as a "temporary" employee, as well as the fact that payments are not being made out of the employee's organization. These circumstances suggest a low level of influence on the part of the employee.

- A cumulative amount of $48,640 has been paid out of the Fire Department budget, to a local company that provides custom embroidery. The address of this company is the same as a current Fire Department employee, who has worked for the County since 1981. The Federal Identification number for the company is also the same as the employee's social security number. There is no contract in place for this business. County policy does not require a contract for vendors receiving less than $10,000 per year. However, a current disclosure statement has been filed.

- $4,763 was paid to a company by the Parks Division during 2003, under a "maintenance of grounds" line item. The phone number for this company is the same as that of an employee of Parks and Recreation hired in May of 2003. The federal identification number for this business is also the same as the social security number for the employee.

This concludes the Executive Summary of this letter report. The detailed report of our audit follows on the next page.

Detailed Report of Payroll Audit

PAYROLL MASTER FILE

Our analysis of the County's payroll master file was of data at a single point in time—current as of November 11, 2003. The master file generated on that date by IS contained 12,676 records, including all current employees as well as employees who terminated any time during the prior two-year period. Out of the 12,676 records, 7,763 related to current employees (had no termination date) and 3,581 of those had "regular" status (not part-time, probationary, temp, etc.).

The following areas were tested using the payroll master file: *duplicate employee data, accrual of vacation and sick leave, pay ranges, missing data and out-of-state employees.* Each section will be discussed separately. Our findings in each area follow:

- **Many employee records contained the same home telephone number. However, duplicate addresses could not be detected due to a lack of standardized data entry.**
- **Vacation was accrued at the rates established in County Policy.**
- **Vacation balances were within amounts allowed by County Policy.**
- **Sick leave was accrued at a rate in accordance with County policy.**
- **Twenty-one employees under the general pay plan were paid above the maximum amount allowed for their grade. The Health Department had the most employees paid above the grade maximum.**
- **Thirty-eight temporary employees were paid above the maximum amount allowed for their grade. The Fire Department had the most employees paid above the temporary grade maximum.**
- **Several fields contained missing or invalid data.**
- **Sixteen employees had out-of-state addresses.**

Many employee records contained the same home telephone number. However, duplicate addresses could not be detected due to a lack of standardized data entry. The Fraud Examiners Manual, published by the Association of Certified Fraud Examiners, states that looking for the presence of ghost employees can be done by testing employees with the same address, the same government identification number (SSN), the same automatic deposit account number, or employees with no withholding. We reviewed 12,676 names on the payroll master file. These names included 4,913 employees who had terminated prior to November 11, 2003. We looked for duplications in the following fields: *Names, Social Security Numbers, Bank Account Numbers, Phone Numbers, and Addresses.*

We began by looking for employees with the same name. We found 178 duplicate names, 16 of which had the same address. Further examination found that these employees had different birth dates and different middle initials. We discovered one employee who served on the County Council as well as working in the Fire Department. When we inquired about this, we were told that in order to correctly account for leave, pay from the two sources were separated for the year's disbursements, but the totals were combined to appear correctly on the individual's W-2 at the end of the year.

We checked for duplicate Social Security Numbers and found none.

We tested for duplicate phone numbers and found numerous matches. Further investigation revealed that many of these duplicates belonged to temporary employees who lived at the same location, a government-sponsored living facility, with the site phone number serving as each individual's phone number. Additionally, phone numbers change often, and evidently are not updated immediately, so with a data base of 12,676, this was not a valid test area.

We examined the data base for duplicate addresses. We were unable to make a comparison on this field because there were several different ways to input an address, and any variation made finding duplications almost impossible. For example, "24 West First Street" could also be entered as "24 W. First St," "24 W. 1st Street," or other composition.

Countywide Policy #1002, "Standard Address Procedures," states that the County will use standardization of addresses *"that allow a uniform and consistent method for county personnel to enter information into computer files…"* and to have *"conformity that will allow the integration and comparison of information in different computer files using the address as a common key."*

In spite of the limitation of not finding all the duplications, we did research duplicates that were found and determined that the duplicate addresses belonged to two separate employees living at the same address. If all addresses were input in the prescribed format, a more exhaustive comparison would be possible. As the employee master file now exists, an accurate consideration of duplication could not be made.

RECOMMENDATIONS:

1. ***We recommend that the master file be updated with the correct phone number of each employee.***

2. We recommend that new employee addresses be entered in the standard form in accordance with Countywide Policy #1002. We further recommend that all employee

addresses be reviewed and corrected, if necessary, so that addresses are in the standard form for comparison.

Vacation is being accrued at the rates established in County Policy. Vacation time is earned based on the number of years working for the County, number of hours worked each pay period, and employment status. Temporary, non-permanent part-time, appointed and elected employees do not accrue vacation. Probationary and provisional employees accrue vacation but are not allowed to use it until they reach permanent status. The following table contains vacation accrual rates and is based on information contained in “The Salt Lake County Employee Handbook” and Civil Service Policy and Procedure, #5170-2 “Vacation.”

Years of Service	Vacation Accrual: Per Pay Period	
	Regular 8-hour employees	24-hour Employees (Fire & Emer. Services)
Zero to 8	4	6
8 to 16	6	9
16 and up	8	12

Vacation accrual is calculated based on regular hours worked. Permanent part-time employees accrue vacation at one-half the rate of a full-time employee (assuming 20 hours are worked per week). We requested vacation used per pay period as a part of our data files. We did not, however, request vacation accrued on a pay period by pay period basis. We, therefore, tested vacation accrual using the vacation accrual field in the Payroll Master File. The result was zero records with vacation accrual rates above County policy. We were also able to ensure that no employees ineligible for vacation were receiving it.

Vacation balances are within amounts allowed by County Policy. For all other employees, Salt Lake County Personnel and Procedures, #5510, “Leave Practices” states in Section 9.4, *“Unused accrued vacation may be carried forward to succeeding years. However, no more than 40 days (320 hours) will be carried over from one year to the succeeding year.”* According to policy, regular employees can start each year with a maximum of 320 hours. Depending on their length of service, vacation for regular employees was then accrued at anywhere from 4 to 6 hours per pay period for 21 pay periods. The following table contains the maximum vacation balances employees should have as of the date the file was acquired.

Years of Service	January 2003 Max Balance	Regular 8-hr employee accrual rate	Pay periods as of 11/12/2003	Maximum Vacation Balance
Zero to 8	320	4	21	404
8 to 16	320	6	21	446
16 and up	320	8	21	488

There were 268 records with vacation balances in excess of the maximums shown above. However, Policy #5510 also states in Section 8.5 that, “*Employees eligible for sick leave, who use little or none during the calendar year, will have a portion of their unused sick leave converted to additional vacation according to the following formula: Accrued Credit - (minus) Used Credit - (minus) 64 Hours.”* Employees could therefore have received an additional 32 hours. One employee had 52.57 more vacation than allowed by County policy. Further investigation revealed the employee was a fireman, who correctly accrued vacation at 9 hours per pay period. He appeared in the filter because his pay plan code was invalid, "f." None of the remaining records exceeded limits by more than 32 hours. Random testing of the employees using the payroll function of the County's mainframe Customer Information Control System (CICS) found that sick leave conversion had taken place.

Firemen are covered by Civil Service Policy #5170, which states in Section 2.3, "*Unused current and accrued vacation may be carried forward to succeeding years. However, no more than …20 days (480 hours) for 24-hour employees.*" This policy, in combination with their differing accrual rates results in the maximums contained in the table below.

Years of Service	January 2003 Max Balance	24-hour employees	Pay periods as of 11/12/2003	Maximum Vacation Balance
Zero to 8	480	6	21	606
8 to 16	480	9	21	669
16 and up	480	12	21	732

There were 13 records with vacation balances in excess of the maximums shown above. However, Firemen are also eligible to receive a credit for unused sick leave. Firemen accrue sick leave at 6 hours per pay period and are eligible to convert a maximum of 48 hours to vacation. Using this formula, one fireman initially appeared to be 84 hours over the maximum balance, more than could be explained by sick leave conversion. Further research revealed that the employee had transitioned from a 24-hour, platoon shift, to a day employee in December of 2002. He then transitioned back to a 24-hour platoon in April 2003. After adjusting the beginning balance and vacation accrual rate to account for these changes in employment status, his vacation balance calculated to be 263.88 hours over policy.

We discussed the excess vacation balance with the Payroll Coordinator for the Fire Department. She indicated that when 24-hour shift employees transition to a day job, it is Fire Department policy to allow the employee to retain vacation hours accrued for the year of the change and for the following year ("use or lose" adjustments are reversed). The policy was established because it is more difficult to use up the vacation as an eight hour employee (eight hours at a time versus 24).

Sick leave is being accrued at a rate in accordance with County policy. Policy #5510 states that full-time merit, probationary, provisional employees accrue sick leave at the rate of four hours per pay period. Permanent part-time employees accrue sick leave at one-half the rate of full-time employees, or two hours per pay period. There is no limit on the amount of sick leave that may be accrued and carried forward to succeeding years.

There were no records in the ACL data with sick leave accruals in excess of four hours per pay period. We did find some inconsistencies between the ACL data and research performed on CICS, however. Later in our audit, we also noted that, in accordance with Civil Service Policy # 5170, Firemen accrue vacation at a rate of six hours per pay period, not the four hours reflected in the ACL data. These differences represented needed adjustments to the data extraction process, and not problems within the payroll system. Due to time constrains and lack of findings in the area of vacation, we did not request IS to re-create the payroll master file.

Twenty-one employees under the general pay plan were paid above the maximum amount allowed for their grade. The Health Department had the most employees paid above the grade maximum. Compensation for the majority of positions within Salt Lake County is governed by one of three pay-plans: the temporary pay scale, the general pay scale or the public safety pay scale. Grade levels on each pay scale dictate the minimum and maximum compensation allowed. Salt Lake County's Personnel Division establishes these ranges based on the labor market. The Salt Lake Area Compensation Group Salary Survey, which surveys 70 employers along the Wasatch Front, or telephone surveys taken by Personnel are used as benchmarks. If outside benchmarks are not available, a seven factor analysis is performed using job characteristics, including: complexity, decision making, responsibility, budget, training, certifications, customer service, supervision, materiality of errors, working conditions and physical demands. The general pay plan in effect during 2003 can be seen in the following table.

Grade	Minimum	Maximum	Grade	Minimum	Maximum
5	$ 7.06	$ 9.42	24	$ 17.56	$ 25.83
6	$ 7.41	$ 9.88	25	$ 18.43	$ 27.14
7	$ 7.78	$ 10.37	26	$ 19.33	$ 28.50
8	$ 8.16	$ 10.88	27	$ 20.30	$ 29.90
9	$ 8.56	$ 11.41	28	$ 21.30	$ 31.37
10	$ 8.98	$ 11.97	29	$ 22.35	$ 32.94
11	$ 9.42	$ 13.17	30	$ 23.46	$ 34.59
12	$ 9.88	$ 13.80	31	$ 24.62	$ 36.29
13	$ 10.35	$ 14.48	32	$ 25.86	$ 38.10
14	$ 10.85	$ 15.20	33	$ 27.14	$ 39.99
15	$ 11.39	$ 15.95	34	$ 27.91	$ 41.99
16	$ 11.95	$ 16.73	35	$ 29.90	$ 44.09
17	$ 12.53	$ 17.56	36	$ 31.37	$ 46.27
18	$ 13.15	$ 18.42	37	$ 32.93	$ 48.55
19	$ 13.80	$ 19.33	38	$ 34.58	$ 50.99
20	$ 14.48	$ 20.30	39	$ 36.29	$ 53.53
21	$ 15.20	$ 21.31	40	$ 38.09	$ 56.18
22	$ 15.93	$ 22.35	41	$ 39.98	$ 58.97
23	$ 16.73	$ 23.46	42	$ 41.99	$ 61.93

New hires typically start at the minimum pay for that grade. Each year employees are eligible for a merit increase, the amount of which is established during the budget process. For the past nine years the merit increase has been 2.75 percent. The pay plan is also adjusted upward for inflation from year to year, but employees with a long tenure at the County often reach the top of their pay scale. Once employees reach the top, they are no longer eligible for the 2.75 percent merit increase.

Out of 3,062 active employees within the general pay plan, 21 were paid an average of 5.2 percent above their current grade maximum. Percentages paid over the grade maximum ranged from 1.1 to 12.1 percent. The following table lists the positions by organization.

Title	Grade	Hourly Rate	Grade Maximum	% Over Maximum	Org.	Organization Name	Years of Service
Senior Citizen Transportation	13	15.05	14.48	3.94%	2300	AGING SERVICES	25
Information Counter Supervisor	19	20.54	19.33	6.26%	1300	ASSESSOR	36
Commercial Appraiser	25	28.83	27.14	6.23%	1300	ASSESSOR	35
Tax Relief/ Deferral Specialist	17	18.16	17.56	3.42%	1011	COUNCIL- TAX ADMINISTRATION	11
Office Specialist 13	13	15.76	14.48	8.84%	2400	CRIMINAL JUSTICE SERVICES	13
Probation Case Manager	21	21.73	21.31	1.97%	2400	CRIMINAL JUSTICE SERVICES	19
Psychologist 27	27	31.06	29.9	3.88%	2400	CRIMINAL JUSTICE SERVICES	28
Enforcement Officer	20	22.13	20.3	9.01%	4050	DEVELOPMENT SERVICES	29
Program Specialist	14	15.37	15.2	1.12%	2150	HEALTH DEPARTMENT	30
Environmental Health Specialist	25	28.21	27.14	3.94%	2150	HEALTH DEPARTMENT	17
Environmental Health Specialist	25	29.9	27.14	10.17%	2150	HEALTH DEPARTMENT	22
Environmental Health Specialist	25	28.49	27.14	4.97%	2150	HEALTH DEPARTMENT	28
Environmental Health Supervisor	27	31.06	29.9	3.88%	2150	HEALTH DEPARTMENT	33
Surveillance Specialist	24	26.87	25.83	4.03%	2150	HEALTH DEPARTMENT	16
Warehouse/ Dock Worker	13	14.8	14.48	2.21%	1420	JAIL	12
Institutional LPN	15	16.74	15.95	4.95%	1420	JAIL	13
Institutional LPN	15	16.74	15.95	4.95%	1420	JAIL	10
Information Systems and Fiscal Manager	24	26.97	25.83	4.41%	1500	JUSTICE COURTS	22
Accountant 21/23/25	23	24.43	23.46	4.13%	2500	LIBRARY	28
Recreation Program Coordinator	22	25.05	22.35	12.08%	3640	RECREATION	24
Office Specialist 13	13	15.21	14.48	5.04%	2100	YOUTH SERVICES	14

As expected, all of the employees had a great deal of experience working for the County, with an average of 22 years of service, ranging from 10 to 36 years. The Health Department, with six of the 21 employees, had the most employees paid above their grade maximum, followed by the Jail and Criminal Justice Services with three each. It may be worthwhile for

Personnel to review the classification of Health Department employees and possibly increase the grade levels if warranted.

RECOMMENDATION

We recommend that the Health Department review the classification these employees, in consultation with County Personnel to validate appropriate pay scales.

Thirty-eight temporary employees were paid above the maximum amount allowed for their grade. The Fire Department had the most employees paid above the temporary grade maximum. Salt Lake County Personnel Policy and Procedure #5025, "General Definitions," defines a temporary employee as, *"An 'at will,' non-FLSA-exempt employee who is not eligible for County benefits and who may work no more than 1040 hours per calendar year."* Personnel Policy and Procedure #5100, "Employment Status" states in Section 5.3.4, *"Temporary employees shall be paid on an hourly basis and within the pay range of the grade established by the Personnel Division for the position and approved by the County Council"* They can be paid more than allowed by their grade. In the same policy, Section 5.3.4.1 it states *"In order to pay a temporary above the established grade range, the Administrator must prepare a letter of justification that must be approved through the CP-4 process."* The temporary pay plan can be seen in the table below.

Grade	Minimum	Maximum	Grade	Minimum	Maximum
5	$5.25	$7.06	24	$12.10	$17.56
6	$5.39	$7.41	25	$12.70	$18.43
7	$5.53	$7.78	26	$13.32	$19.33
8	$5.67	$8.16	27	$14.00	$20.30
9	$5.88	$8.56	28	$14.69	$21.30
10	$6.11	$8.98	29	$15.43	$22.35
11	$6.42	$9.42	30	$16.20	$23.46
12	$6.73	$9.88	31	$17.01	$24.62
13	$7.06	$10.35	32	$17.86	$25.86
14	$7.43	$10.85	33	$18.76	$27.14
15	$7.79	$11.39	34	$19.70	$28.49
16	$8.27	$11.95	35	$20.68	$29.90
17	$8.60	$12.53	36	$21.72	$31.37
18	$9.02	$13.15	37	$22.80	$32.93
19	$9.48	$13.80	38	$23.94	$34.58
20	$9.95	$14.48	39	$25.13	$36.29
21	$10.43	$15.20	40	$26.40	$38.09
22	$10.97	$15.93	41	$27.71	$39.98
23	$11.52	$16.73	42	$29.09	$41.99

Out of 3,407 active employees within the temporary pay plan, 38 (1.1 percent) were paid an average of 12.8 percent above their current grade maximum. Percentages paid over the grade maximum ranged from 1.4 to 42.3 percent.

Grade	Hourly Rate	Grade Maximum	% Over Maximum	Org.	Organization Name	No. of Employees	Hired	Years of Service
19	16.00	13.80	15.94%	1251	TREASURER -TAX ADMINISTRATION	1	9/27/1993	11
31	32.75	24.62	33.02%	3050	INFORMATION SERVICES	1	9/8/1970	34
33	38.62	27.14	42.30%	3050	INFORMATION SERVICES	1	3/16/1970	34
11	10.70	9.42	13.59%	3150	PERSONNEL	1	5/3/1979	25
27	30.00	20.30	47.78%	4050	DEVELOPMENT SERVICES	1	10/17/1972	32
12	10.14	9.88	2.63%	4300	FIRE DEPARTMENT	1	7/17/2000	4
12	10.14	9.88	2.63%	4300	FIRE DEPARTMENT	12	6/10/2002	2
13	10.66	10.35	3.00%	4300	FIRE DEPARTMENT	1	6/11/2001	3
13	10.66	10.35	3.00%	4300	FIRE DEPARTMENT	2	6/10/2002	2
13	10.66	10.35	3.00%	4300	FIRE DEPARTMENT	1	6/28/2002	2
12	11.10	9.88	12.35%	4300	FIRE DEPARTMENT	4	6/11/2001	3
12	11.10	9.88	12.35%	4300	FIRE DEPARTMENT	2	5/28/2002	2
12	11.10	9.88	12.35%	4300	FIRE DEPARTMENT	1	6/11/2002	2
13	11.41	10.35	10.24%	4300	FIRE DEPARTMENT	4	7/17/2000	4
13	11.41	10.35	10.24%	4300	FIRE DEPARTMENT	1	8/8/2000	4
17	12.71	12.53	1.44%	4300	FIRE DEPARTMENT	1	6/1/2000	4
17	12.71	12.53	1.44%	4300	FIRE DEPARTMENT	1	7/17/2000	4
17	12.71	12.53	1.44%	4300	FIRE DEPARTMENT	1	6/11/2001	3
16	16.56	11.95	38.58%	4600	FLOOD CONTROL-ENGINEERING	1	5/21/1972	32

The majority of these, 84.2 percent (32), were Fire Department employees. According to the Fire Department payroll coordinator, these were seasonal positions related to Wildland fire operations and were approved by the Mayor's Office. The increase in pay was intended to better approximate the State Lands and Forest Service rates. Three of the remaining six are employees that have retired and then returned to work on a part-time, temporary basis. These six employees worked for the County an average of 28 years.

RECOMMENDATION

We recommend that Fire Department temporary pay scales be reviewed and increased as appropriate, realizing this is now an issue with the newly formed United Fire Authority

Several fields within the payroll master file contained missing or invalid data. We tested the fields in which we expected to find data in each record. We found no missing data in the *Social Security Number* field, the *Name* field, or the *Organization* field. We found missing data in the *Pay Plan* field and in the *Grade* field. The Payroll Supervisor informed us that some employees do not have a pay plan because of the nature of the position. For some positions, a *Pay Plan* or *Grade* field is not required. For example, Title 5, LegacyCorp/AmeriCorp positions, Crossing Guards, do not need a pay plan designation because they are funded by a stipend.

Sixteen employees on the payroll master file had out-of-state addresses. One way in which phantom employees can be traced is to determine if a current employee has an out-of-town address. We ran a test to see if any current employee lived out of state. We found 16 employees who met those criteria and we researched them on CICS. Subsequent to running the test, a termination date was entered for 11 of the 16 employees. Two more of the 16 employees now have a current Utah address, while at the time we ran the test, they did not. One current employee has an address in Evanston, Wyoming. She is a part-time employee who usually works four days in Salt Lake and then goes home to Evanston. She maintains a home in Salt Lake, but her permanent address is Wyoming. Another employee had no termination date, but had received no checks since August 15, 2003. The third employee had no termination date, but the last check was dated September 15, 2002. This person was a student who had worked as an usher and requested that she not be terminated in case she wanted to pick up a shift or two when she was in town. Since this person had not contacted the Capitol Theatre for employment in almost two years, her employment was terminated upon our questioning.

RECOMMENDATION

We recommend that termination dates be entered in a more timely manner.

ACTION TAKEN:

Fine Arts terminated the temporary employee.

QUARTERLY PAY

Payroll transactions were provided by IS in eight files, each consisting of one quarter's data. *In all, over 300,000 transactions were analyzed, relating to over $242 million in net pay.* The break-down of this data, by quarter can be seen in the table below. Each pay record within the data contained the employee's social *security number, leave taken, amounts withheld* and *amounts paid*. In order to view information about the employee held in the payroll master file, such as the employee's name, organization, and status, each quarterly file was either joined or related to the master file.

		Transactions	Est. # of Employees	Total Net Paid
Quarter 1	2002	36,869	6,145	29,646,151
Quarter 2	2002	39,089	6,515	29,109,905
Quarter 3	2002	40,255	6,709	30,269,600
Quarter 4	2002	38,339	6,390	29,480,631
Quarter 1	2003	38,317	6,386	29,427,549
Quarter 2	2003	40,000	6,667	30,436,195
Quarter 3	2003	40,820	6,803	32,338,833
Quarter 4	2003	38,373	6,396	31,417,939
	Total	**312,062**		**242,126,804**

The following areas were tested for each quarter: *calculation of earnings, special payments, employee benefits, employee taxes and voluntary/involuntary deductions*. Tests were designed to ensure that transactions were accurate, complete and performed in a timely manner. Our findings in these areas follow:

- **Manual checks were issued for pay periods outside the quarter being examined.**
- **Gross and net calculations within the payroll system function correctly.**
- **Several individuals receiving payroll checks could not be matched to a record in the payroll master file provided by IS.**
- **The Fire Department generated the majority of duplicate payroll transactions.**
- **FICA and Medicare withholdings are within the amount required by law.**
- **Employees received more than 100 hours of overtime related to 376 pay periods. The majority of these transactions related to the Fire Department.**
- **Fourteen payroll checks contained 100 or more hours of leave without pay (LWOP).**
- **One hundred eleven transactions had more than 100 hours of vacation.**
- **One hundred eighty-four transactions contained 100 or more hours of sick leave.**
- **Section 125 Cafeteria Plan contributions were within legal restrictions.**
- **Employees claimed exempt status or increased the number of dependents they claimed during pay periods containing additional earnings.**

Manual checks were issued for pay periods outside the quarter being examined. We ran a statistics test on each quarter. This test gives an overview of the data that highlights abnormalities. One result of the statistics test was a finding of transactions dated outside the quarter. We researched each transaction with a date outside of the current quarter to determine the reason for that date. The table below illustrated, by quarter, the explanation for checks outside of the pay period.

		Number of transactions	Reason for transaction
Quarter 1	2002	5	All were for 12/31/01 pay period. All were extra pay. (3) = "25 PS Retro O" (Sheriff and D.A.) (2) = "46 Retro OT" (Public Works)
Quarter 2	2002	6	(1) = pay adjustment for 7/31/01 pay period (2) = additional hours for previous quarter (1) = reissue of voided check (1) = first paycheck (1) = regular paycheck for previous pay period entered manually.
Quarter 3	2002	0	
Quarter 4	2002	4	(1) = first paycheck after rehire, work completed in 9/30/02 period. (1) = additional hours for 9/30/02 pay period. (1) = additional pay for 9/30/02, which when added to first check does not exceed bi-monthly salary due. (1) = pay for 9/30/02 period, single check, none issued earlier.
Quarter 1	2003	5	For five employees. (1) = original check issued, voided, and reissued for work in pay period 12/31/02. 125 contribution changed on last pay period, making taxable amount different. (1) = 12/31/02 pay check was short because she had no sick leave left; after donation of sick, this check was for balance. (1) = additional hours for 12/31/02 pay period, totaling 32 hours. (1) = additional hours after 12/31/02 termination. (1) = additional hours to employee after vacation and sick are entered with LWOP.
Quarter 2	2003	3	(1) = void of last check 5/16/03, original check dated 2/15/03 (1) = additional hours for 3/31/03 pay period. (1) = additional hours for 3/31/03 pay period.
Quarter 3	2003	2	(1) = temporary, summer worker, first check for the year for 6/30/03 pay period. (1) = first paycheck for 6/30/03 pay period.
Quarter 4	2003	3	(1) = temp, one check only for 9/30/03 pay period. (1) = mileage check issued after termination. (1) = temp, additional hours, 9/30/03 pay period.

We found 28 checks with pay period dates outside of the quarter queried. Most of these were for hours worked in the previous pay period, but not picked up. Three were a reissue of a void for a previous pay period, which was outside the current quarter. It is our understanding, from the Payroll Supervisor, that getting a check cut outside of the regular run requires approval from more than two people, thereby verifying that the check is correct.

Gross and net calculations within the payroll system function correctly. One critical step in Computer Assisted Auditing is to verify the accuracy of the data being analyzed by re-calculating certain fields, such as net and gross pay amounts. This is important to ascertain the soundness of the information system and to ensure the data extraction results are valid.

Recalculation of gross pay, by adding together *regular pay*, *overtime pay*, and *other compensation and expense reimbursements* was one validity test performed. The result was then compared to the gross pay field found in ACL. The pay periods in which the re-calculated gross pay did not match the ACL gross pay data field are shown in the table below, along with the number and amount of those exceptions.

Pay Period	Number of Exceptions	Lowest $ Amt Difference	Highest $ Amt Difference
02/15/2002	1	$843.60	$843.60
12/15/2002	507	$18.00	$1712.50
05/15/2003	1	$240.00	$240.00
12/15/2003	509	$11.04	$1443.84

These exceptions are explained by the way in which IS extracted the data for analysis. Because of the large number of additional forms of payment employees receive (mileage reimbursement, tuition credit, bonuses, etc.), IS combined these "additional payments" into one data field. Some compensation, however, appears under "earnings" on the employee's record for that pay period, but does not count towards calculations of "gross pay" and may or may not count towards calculations of income for withholding purposes, thus resulting in exceptions reported by ACL.

We combined the December 15, 2002 and 2003 records and judgmentally sampled 54 of the 1016 records for further research. The majority, 81.5 percent (44), were additional contributions to the employee's 401 K. Contributions can be made to employees that do not receive a merit increase because they are at the top of their pay scale. The contribution is made by the County and does not accrue taxes or count towards calculations of gross income.

The second-highest category of exceptions, 9.26 percent (5), was "non cash" earnings. The County Payroll Supervisor stated that these entries represent additional compensation to employees with take-home vehicles. An additional 7.41 percent (4) were due to a once-a-year County contribution to life insurance benefits for certain employees. Both benefits are additional compensation, but because they are not paid to the employee in cash, they do not impact the gross *dollar* amount of the check.

Net pay was also validated by starting with gross pay and then subtracting out tax withholdings, benefit contributions and other deductions. Our first attempt using a month's worth of sample data resulted in a variance between the net pay field within the ACL data and the calculated field. The data extraction process had missed certain forms of payroll deductions. IS corrected the problem and re-sent the data. In both gross and net pay calculations, our research determined that the payroll system was functioning correctly.

Several individuals receiving payroll checks could not be matched to a record in the payroll master file provided by IS. Many of the employees receiving checks but who were not on the master payroll file were a product of timing. When we originally asked for the information, we asked for the "termination date" field on the Payroll Master File. We were not aware that there is also available, a "system termination date" field which is most often a different date. The "termination date" is the *effective date of the termination* and the "system termination date" is the *date that the termination paperwork was processed*. For each person who did not appear on the payroll master file, we were able to locate that person on the CICS file, and note that the "system termination date" was outside of the two-year period of information received on the payroll master file. The following table displays the number of individuals not appearing on the master payroll file and the reason for exclusion.

		Number of individuals	Reason not in master file
Quarter 1	2002	3	(1) = term date 8/20/01, system term 11/15/02, last check 1/15/02 (1) = term date 10/12/01, system term 1/29/02, last check 1/31/02 (1) = term date 10/29/01, system term 7/15/03, last check 3/31/02
Quarter 2	2002	5	(1) = term date 10/15/01, system term 1/16/02, last check 6/15/02 (1) = term date 6/30/00, system term 4/25/02, last check 7/31/01 (1) = term date 8/15/01, still no system term date, last check 7/31/01 (1) = term date 5/17/02, system term 5/29/02, last check 5/31/02 (1) = term date 10/29/01, system term 7/15/03, last check 11/15/02
Quarter 3	2002	0	(1) = term date 10/29/01, system term 7/15/03, last check 11/15/02 (1) = term date 12/15/00, system term 3/27/03, last check 7/15/02 voided
Quarter 4	2002	2	(1) = term date 8/20/01, system term 11/15/02, last check 11/15/02 (1) = term date 10/29/01, system term 7/15/03, last check 11/15/02
Quarter 1	2003	0	All records matched to the master payroll file
Quarter 2	2003	0	All records matched to the master payroll file
Quarter 3	2003	1	(1) = one check was issued on a SSN, but other checks were issued to the same person with another SSN, no explanation for change in SSN
Quarter 4	2003	239	This quarter found 239 transactions that did not match the payroll master file. We research 72 on CICS and found that 70 had been hired after 11/1/02. The other two had been hired before the two year data period, but the check in this quarter was the first after several months of receiving no check.

The last quarter of 2003 found 239 transactions that did not match to the payroll master file and that was due to our receiving information up to November 2003. Anyone hired after that date would not appear in our payroll master file.

The Fire Department generates the majority of duplicate payroll transactions. In processing payroll, fraud risk arises from the possibility of a dishonest employee and/or payroll technician overstating the number of hours worked or otherwise making overpayments. One means of overpayment would be processing duplicate paychecks. The duplicate might then be diverted and cashed by the payroll technician, or the employee paid might share a portion of the overpayment with the technician. Unexpected or erroneous duplication of paychecks might also represent a flaw or weakness in the payroll system.

Under normal circumstances, there is one transaction per employee per pay period. In order to find duplicate paychecks, we isolated each pay period within ACL and then queried for employees with more than one transaction. The result was 289 records, some of which were "voided" paychecks. These records represent 128 transactions, with 'transaction' defined as one employee's total pay for one period. For 86 of the 128 transactions, the employee received two, or duplicate, paychecks. Because some quarterly data files contained transactions for pay periods outside that quarter, a few duplicate checks were not detected during this step, but are discussed in the section "statistics" found above. The following are examples of transactions reported.

Description	Percent
A payroll check, followed by a transaction voiding or reversing it, for a net effect of zero.	13%
A payroll check, followed by a transaction voiding or reversing it, and then a reissued, manual check replacing the original.	20%
Checks reissued without changes, as would be done in the case of lost or stolen payroll checks. The wide-spread use of direct deposit helps to reduce this risk.	7%
A payroll check, followed by a manual check with additional house worked or other monies due, such as mileage reimbursement of bonuses. Overtime was the largest category of monies owed.	59%

Manual checks can be issued when paychecks are lost or stolen, when earnings are not paid by the normal payroll system, or other errors occur. In most cases, however, corrections are made to the subsequent paycheck, not through issuing a manual check. "Accounting & Operations Division Payroll Policies & Procedures," Section 6.3, states that the manual paycheck process is, *"available for use only in exceptional circumstances where it is not possible to adjust payroll in the next pay period."* Analysis of payroll data using ACL indicated that duplicate transactions were only .09 percent of the approximately 312,000 transactions analyzed. Interestingly, there were 93 fewer transactions during 2003 than during 2002, representing a drop of 49 percent over the prior year.

A higher-than-average number of duplicate or manual paychecks by individual and/or by organization can be symptomatic of fraud. The following table contains duplicate transactions, by organization, for all organizations with 2 percent or more of the total 289 transactions reported by ACL. Total transactions during 2002-2003 are also shown for comparison purposes. Logically, organizations with more employees, and therefore more payroll transactions, would also have a higher number of duplicate checks than organizations with fewer employees. For example, the Health Department had 5.9 percent of payroll transactions for 2002 to 2003 and 6.2 percent of the duplicate transactions from that same period. By contrast the Fire Department had 5.7 percent of all transactions and a disproportionate 15 percent of duplicate transactions. It is important to note that even with 44 duplicate transactions the Fire Department's number of duplicate checks was still only .25 percent of all transactions processed for that department.

Org. #	Organization	Total Trans.	% of Total Transactions	Duplicate Check Count	Percent of Duplicate Count	Duplicates as % of Total Trans.
4750	SOLID WASTE MANAGEMENT FACILITY	3,404	1.1%	6	2.1%	0.18%
4800	FLEET MANAGEMENT	2,695	0.9%	6	2.1%	0.22%
1415	CONTRACTED SHERIFF SERVICES	16,555	5.3%	13	4.5%	0.08%
3300	FACILITIES SERVICES	3,250	1.0%	14	4.8%	0.43%
4400	PUBLIC WORKS OPERATIONS	7,029	2.3%	17	5.9%	0.24%
2150	HEALTH	18,453	5.9%	18	6.2%	0.10%
3630	PARKS	9,220	3.0%	18	6.2%	0.20%
1420	COUNTY JAIL	30,519	9.8%	19	6.6%	0.06%
2710	COMM RESOURCES & DVLPMT (CRAD)	4,309	1.4%	25	8.7%	0.58%
1210	DISTRICT ATTORNEY	9,863	3.2%	28	9.7%	0.28%
3640	RECREATION	58,043	18.6%	29	10.0%	0.05%
4300	FIRE	17,832	5.7%	44	15.2%	0.25%
	REMAINING ORGS	130,890	41.9%	52	18.0%	0.04%
Totals		312,062	100.0%	289	100.0%	0.09%

Further investigation of the Fire Department data revealed that the majority of the duplicate checks, 20 transactions, were due to the payment of overtime. An additional 12 transactions were checks voided and reissued. This type of transaction occurs in the case of lost or stolen checks, or to correct errors. The issuance of manual checks compensating employees for hours not already paid is a reasonable practice. One manual paycheck issued by the Fire Department, however, contained an additional amount of regular pay, in excess of the employee's regular, semi-monthly earnings.

We inquired with the County's Payroll Supervisor regarding this transaction. She indicated that overtime is sometimes paid as straight time, under a "gross-if-different" calculation. This occurs when an employee receives a change in pay, but overtime due was accrued at the lower pay rate. Pay cannot be calculated automatically by the payroll system, because the system would incorrectly apply the new, higher rate. When researched, this Fireman did receive a change in pay during this period, meaning the additional regular pay was most likely actually overtime. Also, this employee typically received overtime in a similar amount.

We also analyzed the number of duplicate paychecks received by person (versus org) and found no one person that received more than one paycheck per pay period in more than two pay periods—in other words, there was no pattern indicating fraud on the part of any one employee.

FICA and Medicare Withholdings are being withheld in the amount required by law. The "IRS Circular E, Employer's Tax Guide" states, "*The employee tax rate for social security is 6.2% (amount withheld). The employer tax rate for social security is also 6.2% (12.4% total). The 2003 wage base limit was $87,000…The employee tax rate for Medicare is 1.45% (2.9% total). There is no wage base limit for Medicare tax; all covered wages are subject to Medicare tax.*"

We, therefore, queried the payroll data for employees whose FICA and Medicare withholdings exceeded 7.65 percent of gross earnings. To eliminate findings that were the result of small rounding differences, we also filtered out any records where gross earnings were less than $645.

For one payroll record during pay period May 15, 2003, 52 records for December 15, 2002 and 48 records for December 15, 2003, the amount of FICA and Medicare withholdings, in comparison with gross earnings, exceeded 7.65 percent. Further investigation revealed that the employees received additional non-cash earnings, also discussed earlier. These earnings count towards the employee's taxable income and, once accounted for, make overall FICA and Medicare withholdings within the rate of 7.65 percent.

Employees received more than 100 hours of overtime for 376 paychecks. The majority of these transactions related to the Fire Department. There were 376 instances of overtime greater than 100 hours in a period. Of the 376 occurrences, 299 were from the Fire Department, 75 were Sheriff, and two were in error. When we ran the inquiry for overtime hours greater than 100, one employee from Youth Services specified 141 overtime hours. In checking in the CICS database, it was found to be 14 hours of overtime; the problem was the translation from the CICS database to ACL. The second employee, from Sanitation, showed 171 hours on ACL when, in fact, it was 17 hours overtime.

We looked for employees who worked more than 100 hours for more than one pay period, not necessarily subsequent to each other, and found eight with two or more periods of overtime greater than 100 hours. There were four instances in organization number 1415 (Sheriff Unincorporated Law Enforcement, two employees in two pay periods each), eleven in organization number 1420 (County Jail, one employee had seven instances, two employees had two instances each), four in organization number 1425 (Sheriff Court Svcs & Security, two employees with two pay periods) and two in organization number 1430 (Sheriff Invest/Support Service, one employee in two pay periods). Much of this overtime occurred in early 2002, during the Olympics.

The Fire Department had by far the majority of overtime, due to periods of time when fire fighting went on for a lengthy time.

Fourteen records contained 100 or more hours of leave without pay (LWOP). When an employee's regular paycheck does not contain overtime or other monies actually due that pay period, a manual check can be issued. When processing any payroll check, the system automatically calculates and includes the employee's semi-monthly earnings. The payroll technician must, therefore, enter LWOP hours when processing a manual check for additional amounts due, in order to avoid reissuing regular pay as well. Overtime or expense reimbursement is then paid on this second check.

For 10 of the 14 records, LWOP was entered in order to pay the employee overtime hours not included on the first check issued. Another two checks similarly compensated employees for additional amounts owed. One employee was actually on leave. The final employee received 24 hours of overtime but no regular pay. We discussed this transaction with the County's Payroll Supervisor. She indicated that the hours were overtime relating to the previous pay period.

One hundred eleven transactions had more than 100 hours of vacation. For those employees not in public safety, the maximum number of hours that could be taken in a pay period is 80 - 96. We queried ACL for employees with more than 100.00 hours in a pay period. The following table shows 11 employee checks with more than 100 hours of vacation. We were informed by the Payroll Supervisor that when safety employees took a day of vacation, they were required to take 24 hours of leave, because they are on duty for 24 hours at a time. It appears that those outside of safety, even though the hours charged were greater than 100, the gross pay received was for the 86.66 hours of that pay period.

		Number of individuals In Sheriff/Fire	Other Organizations	No. of Vacation Hrs.
Quarter 1	2002	5	1-2250 1-3790	168-gross pay for 86.66 hours 179.75-gross pay for 86.67 hours
Quarter 2	2002	15	1-2200	139.23-gross pay for 55.77 hours medical termination later
Quarter 3	2002	9	1-1300 1-2100	108.25-gross pay for 30.93 hours possible medical problem 112-gross pay for 70.68 hours
Quarter 4	2002	14		
Quarter 1	2003	12		
Quarter 2	2003	9	1-2150 1-2500	129.25-gross pay for 81.64 hours, possible medical problem 120-gros pay for 86.67 hours, 2nd paycheck before retiring
Quarter 3	2003	20	1-1051 1-1300 1-3780	166-gross pay for 84.65 was salaried, went to hourly 151.75-gross pay for 86.66 hours, possible medical problem 112-gross pay for 73.66 hours, possible medical problem
Quarter 4	2003	16	1-3640	126-gross pay for 86.66 hours, possible medical problem
	Total	100	11	

Many of these transactions represent adjustments to bring leave balances current. Leave for non-hourly employees is typically entered into the payroll system on a one pay period delay. For instance, vacation or sick leave taken during August 1st to the 15th would appear on the paycheck for August 15th to the 31st. According to the County's Payroll Supervisor, leave for two pay periods (four weeks) may be recorded on one paycheck in order to avoid overpayments to employees with a low leave balance.

One hundred eighty four transactions contained 100 or more hours of sick leave. Sick pay reported over 100 hours ranged from a low of 100.50 to a high of 456 hours and averaged 158 hours. Over 90 percent originated from the Sheriff's Office, Fire Department or Emergency services. More hours per pay period are possible in these departments due to their expanded work cycles. In addition, Firemen work 24 hour schedules, meaning that sick days each constitute 24 hours, not the traditional eight hours. For instance, 34 records were Firemen with 216 hours of sick—or at 24 hours per shift, nine days.

The six transactions containing the highest amount of sick pay (353 to 456 hours) related to employees retiring from the Fire Department. In each case, the paycheck immediately following the transaction containing the large amount of sick pay contained the employee's retirement payout. This is consistent with a retirement payout allowed by County policy. The Salt Lake County Handbook states, *"At retirement, 25% of accrued sick leave may be paid out or applied to retiree insurance premiums."*

Sixteen records were non-public safety employees. We researched each of these transactions and found that 15 of the 16 individual's paychecks contained no additional funds as the result of the high level of sick hours taken. Four of the checks contained some leave without pay and were less than the employee's normal semi-monthly earnings. We also noted 11 employees that had received large credits of sick hours prior these transactions, and may have been the recipients of Sick Bank donations. Under the County's Sick Bank program, employees can donate vacation hours for use by other employees struggling with catastrophic illness. Four of the employees have since terminated for "medical reasons." In addition, as with vacation, sick leave for two pay periods (four weeks) may be recorded on one paycheck in order to avoid overpayments to employees with a low leave balance.

Section 125 Cafeteria Plan Contributions were within legal requirements. We tested each quarter for excessive 125 Cafeteria Plan contributions. According to the "Salt Lake County 125 Cafeteria Plan, Dependent Care and Health Care Reimbursement Account Information," employees "*cannot change or terminate the salary reduction amount or length of the plan unless a change in family status occurs. Such a change includes marriage, divorce, death of a spouse or child, birth or adoption of a child, or an employment change which affects you or your spouse's eligibility under another group benefit plan*." Otherwise, the deduction must remain the same throughout the year. The Plan also states, *"Salary reduction amounts cannot exceed 1) your earned income at the close of the Plan Year, if you are single head of household; or 2) the lesser earned income of you or your spouse at the close of the Plan Year, with a maximum of $5,000 per Calendar Year."* That amounts to $5,000 each for the Dependent Care and Health Care Reimbursement Accounts. When $10,000 is divided into 24 pay periods, the maximum amount that can be deducted is $416.66.

We found only two instances in the two year period where an employee's deduction exceeded the $416.66 per pay period. One employee had $1,200.00 deducted on his April 30, 2003 paycheck. He had no payroll checks for the period November 30, 2001 to April 30, 2002. He had no Section 125 deductions subsequent to the April 30, 2002 check. The employee's last check was for the July 31, 2002 pay period, after which he retired, for a total of $1,200.

The other employee with excess deductions per period had deducted $78.00 per pay period up to 9/30/02 and $599.33 each of the remaining six pay periods. The total amount deducted for the year was $4,999.98, just under the $5,000 threshold.

We are confident that at the point of the audit, the Section 125 Cafeteria Plan was administered correctly.

Employees claimed exempt status or increased the number of dependents they claimed during pay periods containing additional earnings. Computer Assisted Audits frequently look for employees without deductions for payroll taxes. Fraudulent or ghost employees often do not have any payroll taxes withheld, due to the risk of detection by State and Federal officials resulting from an invalid tax submission. We tested each pay period for employees with no state withholding. The result was 1,201 records, relating to 199 employees. Legitimate reasons for no State withholding are insufficient income, claiming a large number of dependents or claiming exempt status.

Employees submit a W-4 form indicating the number of dependents they have or to claim exempt from withholding. The County's payroll system automatically calculates State and Federal withholding at the rates established by the IRS and those set out in the State of Utah's Withholding Tax Guide. The IRS requires employers to submit copies of the W-4s for employees claiming exempt and/or more than 10 dependents. Also, the IRS requires that employees renew their exempt status each year, by submitting a new W-4 form to the County.

The following table contains the number of employees, by organization, that had no State withholding for one or more pay periods during 2002 to 2003. Organizations with 2 percent or more of the total number of employees are displayed. The total number of employees, by organization, is also displayed for comparison.

Org #	Organization	Total Employees	Percent of Count	Employees w/ No State Withholding	Percent of Count
1300	ASSESSOR	131	1.0%	4	2.0%
1210	DISTRICT ATTORNEY	252	2.0%	4	2.0%
2400	CRIMINAL JUSTICE SERVICES	127	1.0%	4	2.0%
3640	RECREATION	4,238	33.4%	4	2.0%
2500	LIBRARY	705	5.6%	5	2.5%
2100	YOUTH SERVICES	254	2.0%	5	2.5%
1415	CONTRACTED SHERIFF SERVICES	439	3.5%	6	3.0%
2300	AGING SERVICES	704	5.6%	10	5.0%
4400	PUBLIC WORKS OPERATIONS	199	1.6%	10	5.0%
4300	FIRE	525	4.1%	16	8.0%
4750	SOLID WASTE MANAGEMENT FACILITY	87	0.7%	21	10.6%
2150	HEALTH	617	4.9%	25	12.6%

Org #	Organization	Total Employees	Percent of Count	Employees w/ No State Withholding	Percent of Count
1420	COUNTY JAIL	848	6.7%	54	27.1%
	All Remaining Orgs Combined	3,550	28.0%	31	15.6%
Totals		12,676	100%	199	100.00%

Employees with no state withholdings for 30 or more pay periods (11 individuals), and an additional 15 employees were researched by accessing the payroll function of CICS. Each employee had either exempt status or was claiming a large number of dependents. At least five of the employees researched through CICS changed their withholding status for payroll periods in which they received a large amount of overtime pay or an incentive bonus.

With 54 employees, the County Jail has the highest number of employees without state withholdings. At 27.1 percent the number of employees with no state withholding is out of proportion with the Jail's total percentage of employees, only 6.7 percent. The high amount of overtime paid by the Jail may be encouraging employees to claim exempt status or to claim a large number of dependents. For example, one of the 15 employees selected judgmentally was a Jail employee who received 79 hours of overtime for pay period February 28, 2002 and then 77 hours for pay period March 15, 2002. These checks had, by far, the largest amount of overtime for the employee that year. The pay periods from February 15th to March 15th were also the only pay periods in which he claimed a large number of dependents. This may have been done in an effort to avoid greater tax withholdings that would have resulted. This was confirmed by the County Payroll Supervisor, who indicated that frequent changes in withholding status by Sheriff's Office employees had resulted in the Sheriff limiting the number of W-4 changes employees could submit to two per year.

A similar situation can be seen at Solid Waste Management. With 10.6 percent (21) of all employees with no State tax withholdings, Solid Waste Management's share also appears disproportionate to its .7 percent of all employees. Further research revealed that all but 3 of the 21 employees temporarily changed their withholding status for only those pay checks containing a bonus, which was usually $970.99 or $1,000. (County policy restricts incentive awards to under $300, but Division's with a written policy which is approved by the Mayor's Office, can award bonuses in greater amounts.)

The County's Payroll Supervisor indicated that they have actively discouraged payroll technicians from allowing employees to change their withholding status during pay periods in which they would receive a higher than normal amount of pay.

RECOMMENDATION:

We recommend that exempt status and increases in the number of dependents only be allowed for legitimate purposes, not to temporarily decrease tax withholdings.

VENDOR DATA

The vendor file provided by IS contained 18,874 vendor records. Vendor name, address, phone number and federal ID number were included. The amount paid to each vendor was also provided, and was broken down into three columns: total payments since established ($3.8 billion), total payments during 2003 ($314 million) and total payments from January to June 2004 ($120 million). All vendors doing with business with the County on a routine basis are assigned a vendor number. Miscellaneous vendor numbers are used for vendors paid on an infrequent basis.

The objective in testing vendor data was detection of possible fraudulent payments (dummy vendors) and/or employee exertion of influence or conflict of interest in vendor selection. To that end we tested for duplicate vendor accounts and for vendors whose address, phone number or name matched that of a current or former County employee. Our findings in this area follow:

- **We found 1,815 vendor numbers that had been assigned to vendors with more than one vendor record.**
- **Standard addressing procedures were not consistently followed.**
- **We discovered 26 vendors with phone numbers and/or addresses that matched that of a County employee.**
- **A temporary employee terminated and then became a contractor performing the same duties.**
- **An additional three employee-vendor connections were discovered by comparing employee social security numbers to federal identification numbers.**

There were 1,815 vendor numbers that had been assigned to vendors with more than one vendor record. Some duplicate names contained different addresses, suggesting payments remitted to different business branches or departments. Other vendors, however, had the same address and/or phone number, suggesting duplicate vendor set-ups for the same business or individual contractor. As one example, there were five vendor numbers assigned to Dominos Pizza:

Vendor #	Name	Address Line 1	Address Line 2	State
DOP00145	DOMINO'S PIZZA	DEPT #771127	P O BOX 77000	MI
DOP00148	DOMINO'S PIZZA	DEPT 771127	P O BOX 77000	MI
DOP00152	DOMINO'S PIZZA	DEPT 771127	P O BOX 77000	MI
DOP00147	DOMINOS PIZZA	DEPT # 771127	P O BOX 77000	MI
DOP00151	DOMINOS PIZZA	DEPT # 771127 DOMINOS FAC	P O BOX 77000	MI

We discussed the duplication with the County Auditor's Accounts Payable Team Leader. She indicated that purchasing clerks are instructed that when paying a vendor for the first time, they should first determine whether a number has already been assigned to that vendor. Clerks may fail to check for a vendor number, or they may be unable to find the vendor in the system, resulting in a duplicate vendor set up. Accounts Payable may detect the duplication, but once a payment has been made on the new account, the second vendor record can not be deleted until four years has passed. The duplicate account can be flagged with "do not use." With duplication of account numbers, account management, such as determining historical amounts paid, and processing of current payments, becomes more difficult. The establishment of 'dummy' vendors also becomes more difficult to detect.

RECOMMENDATION:

We recommend that each vendor be assigned only one vendor number, and that a more rigorous procedure be established to screen vendors for existing accounts prior to setting up a new account.

Standard addressing procedures were not consistently followed. Countywide Policy #1002, "Standard Address Procedures," states that the County will use standardization of addresses *"that allow a uniform and consistent method for county personnel to enter information into computer files..."* and to have *"conformity that will allow the integration and comparison of information in different computer files using the address as a common key."*

Vendor addresses, however, were entered in a variety of ways. For instance, County policy dictates that directionals be abbreviated with the first letter only. We found 840 records were the word "South" had been spelled out, 185 containing "North" spelled out, 517 records containing "East," and 673 records containing "West." Other rules, such as the abbreviation of street-type designators (i.e., "Rd" versus "Road,") were also not consistently followed. The following table contains some examples of the same address entered differently in each data base.

VENDOR DATABASE	EMPLOYEE DATABASE
5290 HOOPES CIRCLE	5290 S HOOPES CIR
4710 W. 4100 S.	4710 W 4100 S
6689 MARSHROCK ROAD	6687 MARSH ROCK RD
1718 DOWNINGTON AVE.	1718 E DOWNINGTON AVE
6620 SO 3380 WEST	6620 S 3380 W
3657 SOUTH 500 EAST	3657 S 500 E
1433 SO. MCCLELLAND STREET	1433 S MCCLELLAND STREET
842 SOUTH 700 EAST #3	842 S 700 E, #3
417 EAST 1700 SOUTH	417 E 1700 S

As discussed earlier, employee records were also not maintained in a standard format. Comparison using address as a common field could not be definitively accomplished. Individuals receiving payment as employees and vendors may have therefore gone undetected.

RECOMMENDATION:

We recommend that standard addressing guidelines be followed.

We discovered 26 vendors with phone numbers and/or addresses that matched those of a County employee. Non-standard entry of phone numbers and addresses made a complete, 100 percent comparison of the vendor and employee databases using those fields impossible. We were able to detect some duplication, however. We then excluded vendor accounts under the name of an individual, instead of a company, because payments for employee travel expenses and reimbursement of County imprest funds are also made through the accounts payable system.

We found 14 instances were an employee’s home address matched a vendor’s primary address, 20 instances were an employee's home address matched a vendor’s “alternate address,” and nine instances were an employee’s home telephone number matched a vendor’s telephone number. After accounting for overlap between the various matching fields, there were 26 vendors with one or more fields with data matching 27 employees.

Fourteen of the 27 employees worked under the same organization that paid the vendor. Ten of the 27 employees worked for the County during the same time period the vendor received payment from the County. Other vendors were paid before or after a reasonable length of time had passed, although one received payment shortly following the employee's termination. Three of the matching vendors appeared to be in-patient treatment centers, where it is most likely that the County employee was receiving treatment. Another three vendors showed no record of having ever been paid.

The following vendor/employee matches appeared most significant:

- A cumulative amount of $3.7 million has been paid by several County organizations to a construction company. Expenditures appear under facilities maintenance line items. The address of this company matches that of a temporary employee from the Sheriff's Office. The employee was hired in March of 1999. The company responded to an RFP in 2001 and since then has had a contract with the County which expires in Spring 2005. There is no record of the employee filing a disclosure statement with the County legislative body.

  The significance of this match is mitigated by the employee’s status as a temporary as well as the fact that payments are not being made out of the employee's organization. These circumstances suggest a low level of influence on the part of the employee.

- A cumulative amount of $48,640 has been paid out of the Fire Department budget, to a local company that provides custom embroidery. The address of this company is the same as a current Fire Department employee, who has worked for the County since 1981. The Federal Identification number for the company is also the same as the employee's social security number. There is no contract in place for this business. County policy does not require a contract for vendors receiving less than $10,000 per year. However, a current disclosure statement has been filed.

- $4,763 was paid to a company by the Parks Division during 2003, under a "maintenance of grounds" line item. The phone number for this company is the same as that of an employee of Parks and Recreation hired in May of 2003. The federal identification number for this business is also the same as the social security number for the employee.

- $829 was paid by Recreation to a vendor in March and September 2002. The telephone number of this business is the same as that of two Recreation temporaries. One employee worked for the County from December 2001 to February 2003. The second worked from April 2002 to June 2002. The birthdates and last names of the two employees suggest a mother, daughter relationship.

- $575 was paid in August 2001, under Fine Art's budget, to a design company. The address of this business matches a current temporary employee for the same organization, hired in 1993.

- $361 was paid by the West Valley Swimming Pool in November 2003 to a screen and blind company. The address of this business matches that of a Parks and Recreation employee, employed by the County from December 2001 through December 2003.

- $300 was paid by Facilities Services in April 2004 to a local key company. The address of this business matches the home address of a temporary employee for the same organization, hired in 2001.

A temporary employee terminated and then became a contractor performing the same duties. Using a name-to-name match we found 1,051 employees. Employees are assigned a vendor number primarily for the payment of travel expenses and reimbursement of imprest funds. In an attempt to eliminate these routine types of payments, we focused on those that appeared to be addressed to the employee's home (for example not: "C/O Health Department"), resulting in 77 remaining records.

We researched those employees who had received a cumulative amount greater than $1,000 and had also received funds during 2003 or 2004. These 16 employees received a cumulative amount of $1,016 to $34,993. Ten of the 16 employees received Workers Compensation payments. One employee received funds to “make whole” for military service; one received payment for an “industrial medical claim.” Another employee was paid a cumulative total of $2,660 in “other professional fees” and “juror and witness fees.”

The individual receiving the second-highest amount as a vendor, $29,403, had previously worked for Mayor's Operations as a temporary employee. In May of 2003 this employment was terminated, and payments began to be made through accounts payable, by the Planetarium under “other professional fees.” The contract on file for this agreement indicates that the former employee’s duties will include professional archiving of Planetarium historical items, such as news clippings, photographs, slides, and documents. In the Response to the County’s Request for Proposal, the former employee states that, *“From January 2002 to present, I have been responsible for processing the historical records of the Hansen Planetarium.”* This seems to indicate that her duties as a vendor are the same as those she preformed as an employee of the Mayor’s Office.

An additional three employee-vendor connections were discovered by comparing employee social security numbers to federal identification numbers. Over 180 matching records were identified by comparing the vendor’s Federal identification to employee social security number. Six vendors with company names, not the names of individuals, were identified. Three of these had been researched previously, due a matching address or phone number. Other matches include:

- An employee hired in June of 2003 in the District Attorney’s Office. Payment in the amount of $2,400 had been made in 2002 to a company with the same Federal Identification number and address. The expense was incurred by the Election Clerk and was coded to Video and Audio Aids. Since a reasonable amount of time had passed between the payment to this vendor and when the employee was hired, no conflict of interest is apparent.

- A fireman hired in the late 1980s whose Social Security number and address matched that of a vendor. Payment in the amount of $1,920, for “medical supplies” was paid to the vendor out of the Fire Department’s budget in November and December 2002.

- The final match was to an employee hired by the Health Department in the late 1980s. Payment in the amount of $500 had been made by the Health Department in September 2003, for “Education and Training,” to a company with a matching Federal Identification number. The employee’s name, address and phone number were different than that of the vendor.

If you have any questions regarding ACL or any of the findings contained herein please do not hesitate to call.

Sincerely,

Sean Thomas
Salt Lake County Auditor