Payroll

Attestation Engagement—Review

November 2020

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Clay County, Missouri Auditor

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I. *Introduction and Scope*

The pay rates for Clay County employees, especially administrators and elected officials, have been a controversial subject of interest in the public eye in recent years. Indeed, the Salary Commission—comprised of all twelve elected County officials—decided on November 29th, 2017, to equalize their salaries based on legal advice from outside counsel. Of note, the decision was a split one at 6-4 with two abstaining—whose salaries are set separately in law, the Prosecutor and Sheriff. This same vote executed back pay for any applicable previous years served when salaries were not so-called equalized.

Moreover, a former County Administrator who resigned on July 18th, 2018 received what has colloquially been referred to as a "golden parachute" severance package of $196,612.65 in equal installments for fifteen months. Upon that resignation, the Commission in a 2-1 majority vote on July 20th, 2018 then moved to sub-delegate that individual's previous responsibilities to three more Assistant County Administrators (ACAs) by virtue of Resolution 2018-253. Those three ACAs subsequently obtained more than $75,000 in salary raises combined, per an agreement from October 15th, 2018 in again a 2-1 vote. On November 2nd, 2020, those ACAs resigned and have severance agreements of a combined $242,492.60 with accrued leave on top.

To round out the news headlines on this topic for Clay County government, there was an anticipated increase in Board of Equalization (BOE) appeals in 2019 as a result of higher assessed property values. The County Clerk's office schedules those BOE appeals annually. Due to budget cuts in 2018 to that office, coincidentally right after the Clerk's no vote to the aforesaid Salary Commission outcome, the Clerk asked the County Commission to change a part time employee to full time for a few months. The total personnel budget for the Clerk afforded that option with some wiggle room from part time hours and elected officials can use their overall payroll budgets as they see fit. Nevertheless, the Commission, once more in a 2-1 vote, chose instead to offer the Clerk a temp agency to fulfill those hours. Hence, that part time employee ended up working unpaid hours approved by the Clerk but rejected by the Administration.

Finally, for the 2020 budget, in a 2-1 approved 2020-Ordinance-44, a maximum 2% COLA was authorized for County employees. Unlike any previous COLAs in County history, however, each respective department or office had to come up with those funds from elsewhere in their own budgets. If the entire Administration-determined 2020 budget didn't provide for enough extra fluff, so to speak, then a COLA wouldn't be possible. Consequently, it comes as no surprise that the Clerk, for example, simply couldn't find the requisite room for a 2020 COLA. Nor could the Public Administrator—who just so happened to also vote against the 2017 Salary Commission approval of raises for elected officials. This pattern of budgetary retaliation has been and is patent and clear.

In turn, an audit of Clay County's payroll procedures and trends is relevant. After all, the Auditor's office certifies each payroll as to there being adequate cash and budget available—according to Revised Statute of Missouri (RSMo) 55.160. We therefore maintain a considerable dataset of payroll information to conduct such an audit. Given that reality, the type of audit will be a Review form of Attestation Engagement. Under Generally Accepted Government Auditing Standards (GAGAS), a Review calls for the Auditor to reach conclusions based on sufficient and appropriate evidence. No recommendations are delivered for findings, so there are thus no corresponding responses from management. This format of audit was selected over others in light of an ongoing citizen-petitioned performance audit by the State Auditor's office. Further, the annual financial statement Single Audit is underway for both calendar years 2018 and 2019—owing to an incomplete 2018 audit by a previous outside accounting firm.

II. Background and Audit Plan

For additional background on the matter of payroll, we will explore the legal standing of such current operations with respect to Clay County government in particular. As far as budgeting payroll amounts is concerned, RSMo 50.530.2 allows commissions in "first class" (determined by assessed valuation levels) non-charter counties like Clay County to name their own Budget Officer. Otherwise, in first-class counties with less than 100,000 residents, the County Auditor is the Budget Officer by default. In second class counties, it is the Presiding Commissioner. In third and fourth class counties, it is the County Clerk.

Regarding payroll processing itself, Clay County utilizes a Human Resources (HR) department under control of the Commission. One ACA heads this HR department. The statutes are silent on the existence of an HR office for counties—in fact there just isn't one mentioned anywhere in Missouri law. Clay County's Code of Ordinances, however, does iterate the HR department and its related HR Policy Manual.

Said Manual stipulates several mandatory Federal labor law requirements, like the Family Medical Leave Act (FMLA) and Fair Labor Standards Act (FLSA). It also outlines employee conduct expectations such as attendance, take home vehicles, performance appraisals, time off policies, compensation, benefits, personal appearance, nondiscrimination, technology use, cell phones, travel, and the like. As a sidebar, the State Audit is investigating those "fringe benefits" such as take home vehicles and cell phones. This office has to date never seen an unmarked take home vehicle mileage log of personal commuting uses. Importantly, the Manual in at least sections 1-3 Administration, 1-4 Modification of the Policies, 1-5 Departmental Policies, and 1-6 Management Rights indicates the distinction for "Appointing Authorities" to have hiring power within their own staffs. As referenced in the introduction, elected officials ultimately select their deputies and other assistants, subject of course to the Commission-controlled budget.

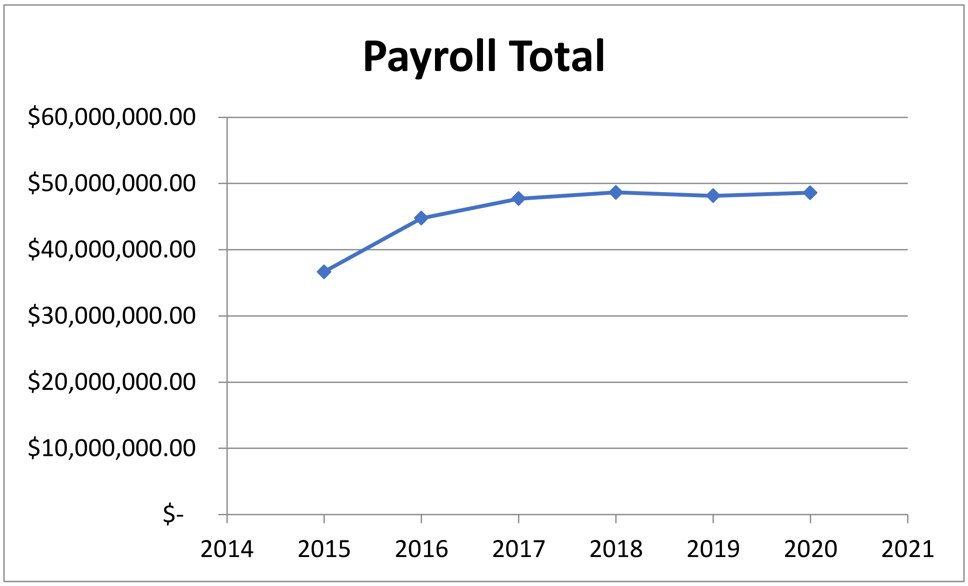
As such, timecards and leave approvals come from elected officials and various department heads within the County Administration. The County operates on a biweekly payroll for twenty six pay periods out of the fifty two weeks in a year. The County's present payroll provider is ADP (Automatic Data Processing). Benefits enrollments and the aforesaid time approvals occur electronically within ADP's portal for County employees. HR, on the Monday of a payroll week, exports pay period totals for the Auditor to enter into the accounting system. After the Auditor's certification of enough cash and budget, the Treasurer sets up a wire to ADP on Wednesday. The Clerk also obtains a Commission designee's signature to make the payroll documents official. The early wire ensures ADP can send direct deposits to employee bank accounts by the Friday pay date.

With the above in mind, the Audit Plan will address five main topics as follows. First is a broad overview of the County payroll budget changes from 2015-2020. Included within that discussion, we aim to analyze the payroll budgets for Administration departments versus elected official offices. Second, we intend to cover the cost for certain benefits for County employees—such as the retirement systems of CERF and LAGERS. Plus, with the benefits concept we will then take into account health insurance expenses for the County. Third, we will bring up the inefficiencies involved with having fifteen company codes in ADP when the County previously only had one. Next, fourth, we will highlight compliance issues with the County Pay Plan as presented in the annual budget. Finally, fifth, the Audit Plan will look into the dilemma of calendar years where a twenty seventh payroll comes into play. This occurred with both 2019 and again in 2020. Time will tell if it gets addressed this year or if the can gets kicked into 2021.

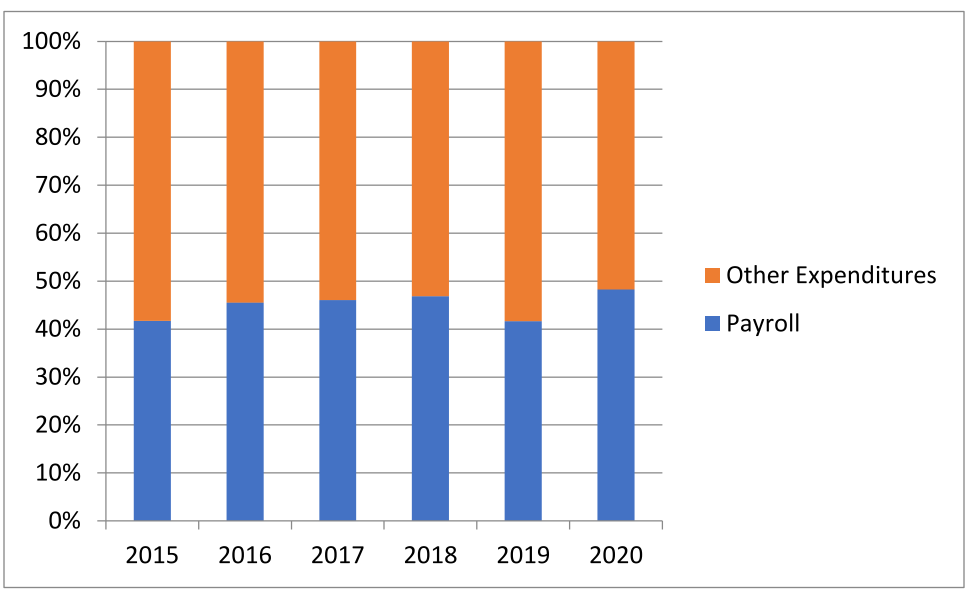
III. *Audit*

- **Statistical Overview of Payroll Budget Growth**

In that timeframe of 2015-2020, payroll budgets grew some 32.6% and $12 million while the total County budget grew 14.5% and $12.8 million. Payroll costs also come out to roughly 40-50% of the whole County budget. The below graph and charts depict these facts.

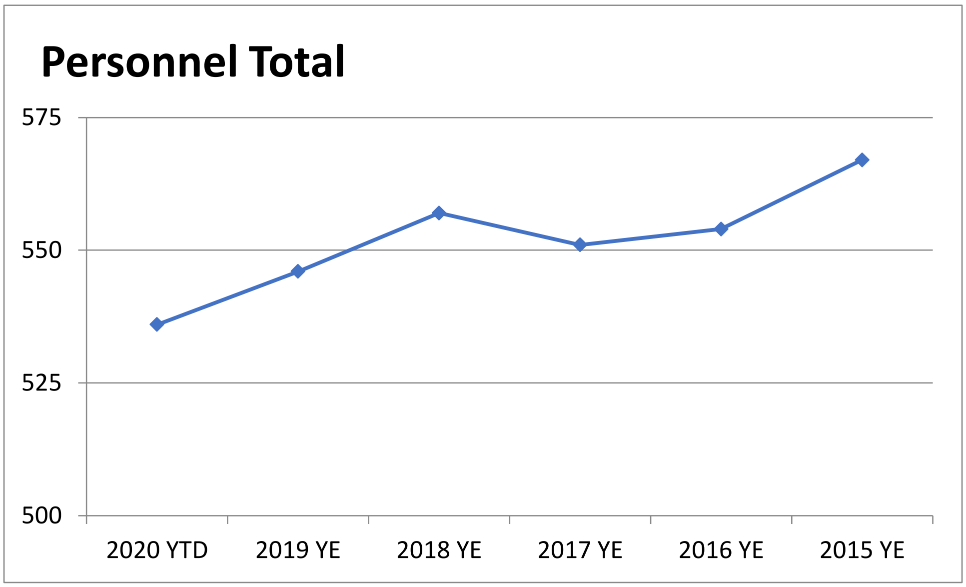


Analysis	2015	2016	2017	2018	2019	2020
Payroll	$ 36,651,035.08	$ 44,760,577.15	$ 47,719,084.60	$ 48,661,203.53	$ 48,151,872.58	$ 48,604,029.45
Total Budget	$87,906,446.00	$ 98,315,292.00	$ 103,603,826.00	$ 103,868,576.00	$ 115,660,061.00	$ 100,685,948.00
%	41.7%	45.5%	46.1%	46.8%	41.6%	48.3%



It is important to point out that the payroll budget figures include all employer paid benefits, like retirement packages as well as any health insurance premiums and Health Savings Accounts (HSAs) contributions.

At the same time, the total number of employees working at Clay County has declined almost in a direct relationship to the increase in payroll budget. The only logical explanation for that would be higher pay rates and benefits. This trend is depicted in reverse (right to left) fashion here:

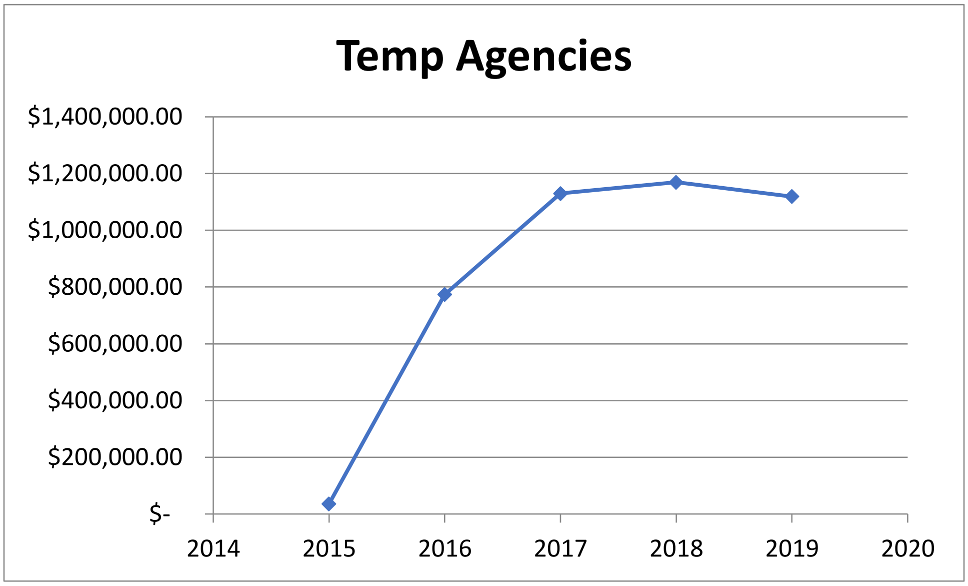


	2021	2020 YTD	2019 YE	2018 YE	2017 YE	2016 YE	2015 YE
Personnel Total	0	536	546	557	551	554	567

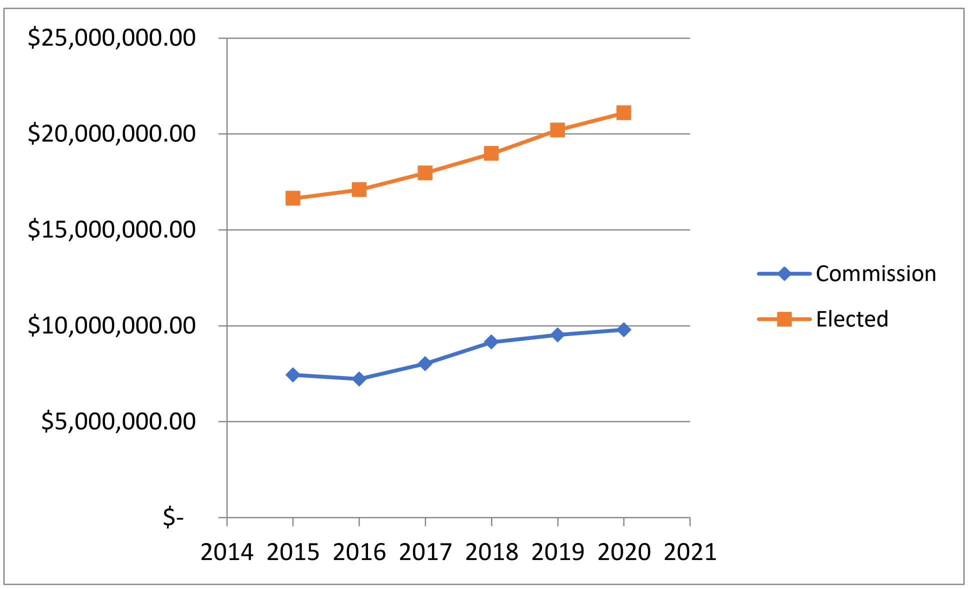
Personnel	2021	2020 YTD	2019 YE	2018 YE	2017 YE	2016 YE	2015 YE
Administration	-	146.00	140.50	144.50	134.00	141.50	139.00
Elected Officials	-	77.00	82.50	82.50	86.50	88.50	94.50
Sheriff	-	189.50	198.00	201.50	199.00	192.50	206.50
Prosecutor		40.50	43.00	43.00	44.00	44.00	45.50
Courts	-	11.00	11.00	11.00	11.00	11.00	11.00
Juvenile	-	72.00	71.00	74.50	76.50	76.00	69.00

Bear in mind that we need to consider temporary personnel from major third party contractors. Those seasonal employees work for Parks, the Collector, and Courts on an as needed basis. Those numbers have generally increased, 3000% and $1 million, in this timeline of 2015-2019 (did not include 2020 YTD figures for an accurate comparison):

	2015	2016	2017	2018	2019
Temp Agencies	$ 35,957.00	$ 773,705.35	$ 1,129,726.31	$ 1,168,860.75	$ 1,118,732.82



For the last point on a statistical overview of County payroll, we turn to the breakout of elected official versus administrative payroll budgets. They both grew at similar rates of 26.8% for elected officials and 31.6% for the Administration departments. As a caveat, neither the County-paid nor State-paid Circuit Court component was included in this count. To simplify things more, the accompanying charts and graphs only show wages only from the 100 account series in the chart of accounts—FICA and LAGERS retirement included:

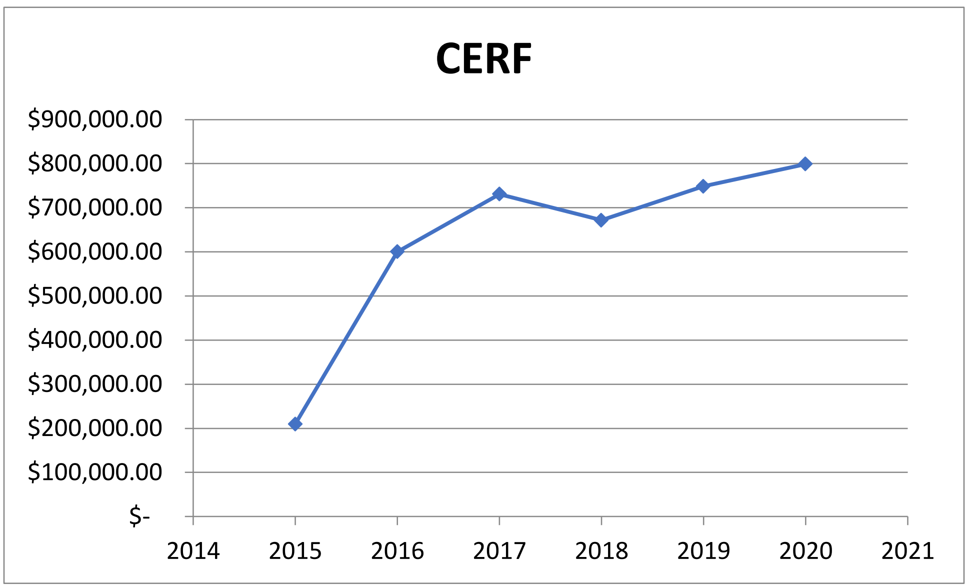


	2020	2019	2018	2017	2016	2015
Commission	$ 9,788,970.45	$ 9,523,460.00	$ 9,148,185.21	$ 8,019,485.41	$ 7,226,440.00	$ 7,440,299.00
Elected	$ 21,093,565.45	$ 20,200,480.26	$ 18,972,991.60	$ 17,968,186.32	$ 17,086,914.32	$ 16,635,251.43

Conclusion: The amount of budget dedicated to payroll for Clay County government increased from 2015-2020. It now consumes roughly half of the County's complete expenditure budget. Meanwhile, the number of employees employed by the County decreased in the same period. This occurred all while temporary or seasonal hired staff spiked 3000% and $1 million. Temporary staff has therefore not offset County payroll expenses by any measure.

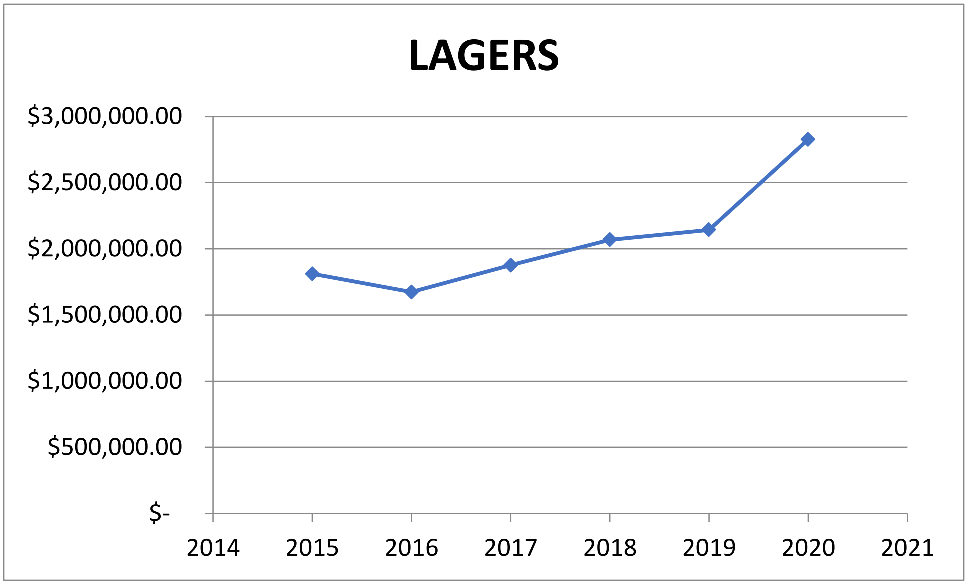
- **Benefits Costs**

Besides presumed salary increases explaining the rise in County payroll budgets, their associated benefits have likewise ballooned. Part of the reason is they are mostly proportional to pay. Beginning with retirement plans at the County, CERF (County Employees Retirement Fund) has matched this circumstance of increases. Essentially, the County contributes 4% of each eligible (full time or over 1,000 hours a year part time) employee's salary. Historically the County had employees put in part of their salary to pay for CERF. Here is what has happened recently for the CERF budget, namely a 281.2% and $589,309.91 growth from 2015-2020:



	2015	2016	2017	2018	2019	2020
CERF	$ 209,596.89	$ 600,233.53	$ 731,068.67	$ 671,698.96	$ 748,491.78	$ 798,906.80

Next, LAGERS (Local Government Employees Retirement System) is another retirement plan for County employees. This one is also County-paid in its entirety. A change was made effective July 1st, 2020 to increase the monthly retired payment multiplier from 1.6% of salary and times years of service to 2%. As can be observed, this has unsurprisingly led to an increase in actual LAGERS expenditures by the County. Through October, for fair comparison, of 2015-2020, the change has been a 56.1% and $1,015,864.51 so far.

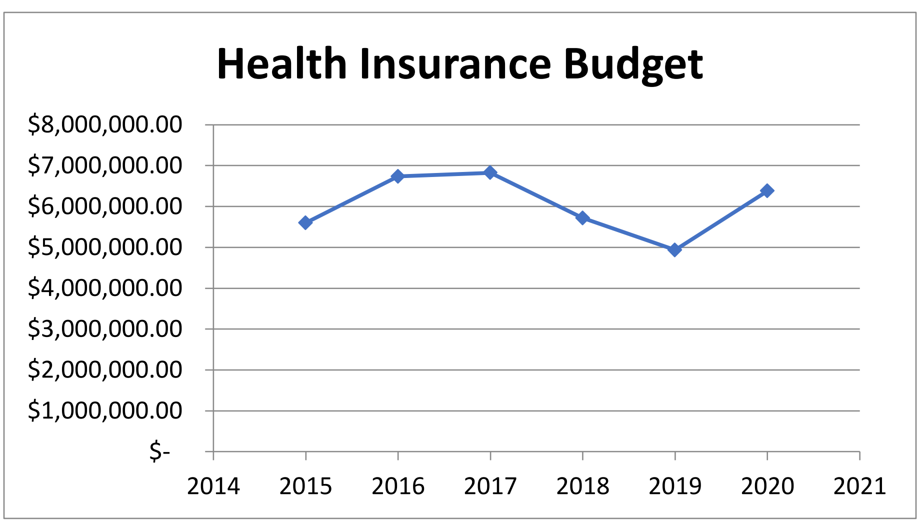


Actual Expenditures to Oct	2015	2016	2017	2018	2019	2020
LAGERS	$ 1,810,653.78	$ 1,673,505.33	$ 1,876,790.00	$ 2,068,308.65	$ 2,143,795.75	$ 2,826,518.29

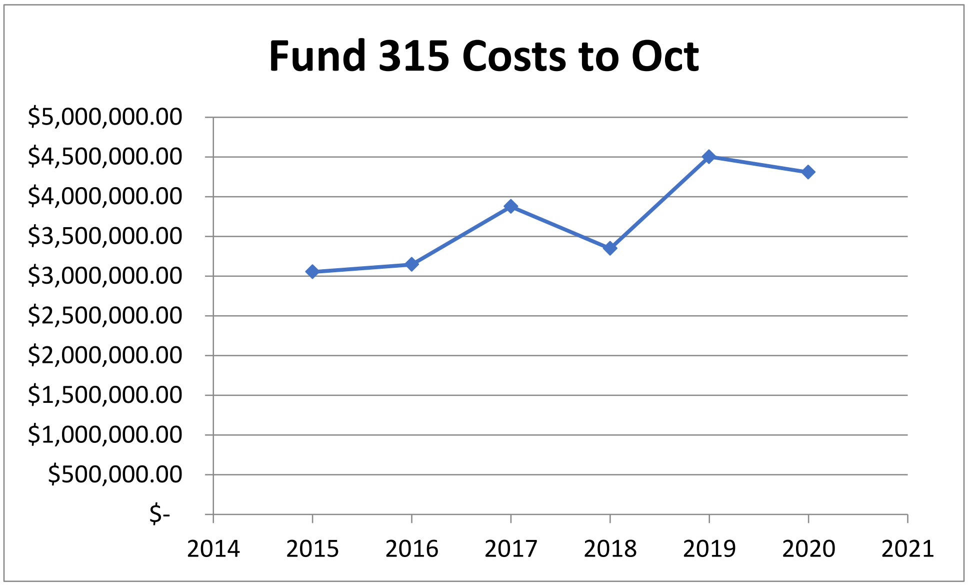
Lastly, we will delve into health insurance costs. In the years of 2015-2020, the County implemented a form of self-insurance with Blue Cross & Blue Shield. It has generally covered most if not all of employee premiums for full time staff, with the EPO/HMO as an exception to that rule. Part time employees have had to chip in some premium, even for HSA/Qualified High Deductible Plans (QHDPs).

Starting with 2021, however, higher insurance costs and claims losses have resulted in a plan being offered that dramatically increases both employee and employer contributions. Part timers face an annual premium cost of around $20,000 for family coverage if they so choose to insure with the County. Such a premium basically exceeds many of their salaries and becomes virtually impractical. Dental employee premiums will also rise for all employees.

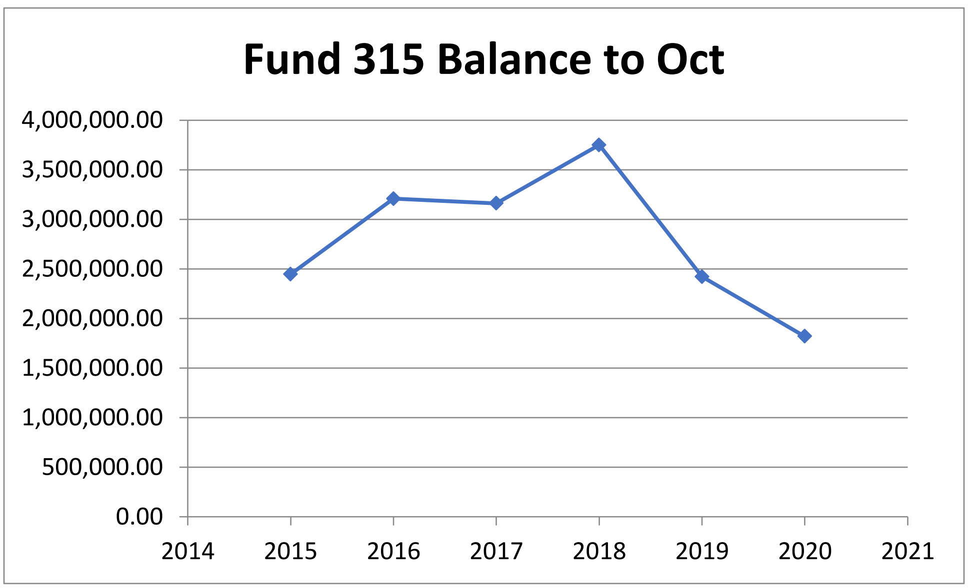
The odd thing about the change, though perhaps warranted, is the status of the self-insurance fund for the County, Fund 315. There is still an ample balance in that Fund, though it has decreased as health costs have gone up. As an internal service accounting fund, though, it really is meant to operate at a near zero balance to merely cover any claims. That’s the whole point of self-insuring. These developments in health insurance for County employees are reflected in the next charts and graphs:



	2015	2016	2017	2018	2019	2020
Health Insurance Budget	$ 5,598,801.19	$ 6,736,310.56	$ 6,826,775.04	$ 5,718,265.80	$ 4,934,338.80	$ 6,379,189.52



	2015	2016	2017	2018	2019	2020
Fund 315 Costs to Oct	$ 3,053,071.48	$ 3,146,358.39	$ 3,875,497.89	$ 3,347,104.29	$ 4,502,668.73	$ 4,305,680.49



	2015	2016	2017	2018	2019	2020
Fund 315 Balance to Oct	2,447,088.89	$ 3,208,680.87	$ 3,161,138.52	$ 3,749,903.69	$ 2,420,953.55	$ 1,819,312.00

Conclusion: Benefits offered by the County to employees have risen from 2015-2020 akin to overall pay rates. Many of these increases were amplified by County decisions to cover retirement contributions and enhance those programs. Passing off higher health care claims losses to employees might not be justified, due to an existing albeit declining self-insurance fund availability.

- **Company Code Inefficiencies**

From the March 29th, 2019 payroll forward, a new process began whereby—instead of one report to ADP—fifteen separate reports of "Company Codes" would eventually be used for Clay County. At the time of the officeholder change audit for the Treasurer in July of 2019, that number was twelve. The latest listing of those codes is as follows:

  - 5VP – Administration and Elected Officials
  - 8DJ – Auditor
  - 7PS – Clerk
  - 7P7 – Treasurer
  - 7P6 – Recorder
  - 8J7 – Collector
  - 7RH – Public Administrator
  - 7RA – Prosecutor
  - 6EB – 7th Circuit Court
  - 6E9 – JIS/Circuit Clerk
  - 6E7 – Juvenile
  - 6EA – Office Dispute Resolution Services (ODRS)
  - KRS – Sheriff
  - 8J1 – Assessor
  - 8J0 – Board of Equalization (BOE)

The ramification of that change is requiring fifteen times as much work to process payroll than if there were just one Company Code. What's more, lumping together the elected officials in with the Administration and other Commission staff for payroll needlessly complicates separate budget expenditure tracking by department—presuming that was the intention. Most of the above do have their own funds or department accounts in the budget.

Fortunately the Treasurer continues to send one wire to ADP instead of fifteen, which is a cost savings. Since the Auditor's office certifies payroll for enough budget and cash, any issue with one company code results in holding up all of payroll. It must all be right.

Conclusion: The move to divide the County's payroll procedures into fifteen parts is an inefficient waste of staff time and County resources. It causes duplicative labor and inaccurate tracking with no advantage whatsoever to the former consolidated reporting method.

- **Pay Plan Compliance**

In every budget book the County publishes a “Pay Plan” indicating the assorted levels or tiers of salary ranges by position. It can be amended by the Chief Budget Officer, subject to sufficient budget. Rather than statistically testing the current 536 employees for compliance to this Plan, we opted to inquire what are termed “Status Change Forms (SCFs)”. These Forms are utilized whenever an Appointing Authority or Department Head wishes to change the pay, status of part-time or full time, and so forth for an employee. The Form is completed and sent to HR for processing ahead of the effective date.

We sampled twenty two payroll periods since the beginning of the aforementioned variety of company codes. We focused solely on the 5VP company code because of how elected officials carry some discretion with their staffs and operations. We randomly selected the fourth SCF for 5VP in each of these pay periods, where applicable and in the order of an internally kept SCF log.

When we did so, we ended up with a minimum ten SCFs that plainly weren’t compliant with the Pay Plan. Six of the samples listed job titles that aren’t on the Pay Plan, neither for 2019 nor 2020. Two raised salaries above the maximum level for Administration staff. One had a similar title, but not the exact same. One was essentially both no such position and outside of any comparable maximum salary range. Furthermore, two of the somewhat compliant selections had similar titles and were within related salary ranges, but not the specifically listed title. In a nutshell, either 10 of 22 SCFs were noncompliant (45%) or even 12 of 22 (55%).

<u>Conclusion</u>: It is safe to say that the County is not completely in compliance with its own Pay Plan adopted annually in the budget for administrative, Commission-department staff. Raises done mid-year exceed have exceeded the stated maximums and a sundry of named job titles aren’t on the Plan—which also tend to evolve during the year.

- **Twenty Seventh Payroll**

At the end of 2019, a situation arose where the last pay date was Friday, January 3rd—a typical schedule for payroll. Because Wednesday, January 1st, was a bank holiday as New Year’s Day, the wire to send cash to ADP needed to occur on New Year’s Eve or December 31st. This in turn lowered the cash carryover from 2019 to 2020, although this office’s previous audit of the Finance Department indicated how that carryover fact was ignored.

Fast forward to 2020 and we have a scenario where the usual Friday pay date falls on January 1st, 2021—once again a bank holiday as New Year’s Day. The reasonable pay date for employee personal budget planning should then, under normal circumstances, be moved up to New Year’s Eve of Thursday, December 31st, 2020. That extra payment was simply not budgeted in the 2020 budget, however, despite this office’s warnings a year ago. The Administration, as of this writing, appears to have ignored the Auditor office’s solution to then re-appropriate budget for that extra payroll—the consequence being a pay date on Monday, January 4th, 2021. Should that occur as expected, the additional payroll must be budgeted in the 2021 budget.

<u>Conclusion</u>: The Administration failed to budget the known 27th payroll for 2020 and this problem has inappropriately been pushed to 2021.

IV. Overall Rating for this Audit

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