



## **SALT LAKE COUNTY AUDITOR'S OFFICE**

**SEAN THOMAS**

September 27, 2005

Glen Lu, Director  
Parks and Recreation Division  
2001 South State Street, Suite S 4400  
Salt Lake City, Utah 84190

RE: Time Card Audit in Parks and Recreation Division

Dear Glen:

The Internal Audit Division surveyed time and attendance records and processes in a limited scope audit of payroll in the Parks and Recreation Division (Division). The purpose of the audit was to obtain an understanding of practices in place for recording time and to determine if the system allowed for time to be recorded accurately. As part of our audit we surveyed time recording systems, both manual and electronic, and noted whether employees self-reported their in/out status, the manner in which time was rolled up from the reporting mechanism into the County payroll system, and we noted the types of controls in place to help ensure system integrity. We also examined Recreation contracts entered into with individuals and companies for performance of specific services to determine whether payments to these individuals and entities were accurately made and reported.

### **Overview of Time Recording and Reporting**

We obtained a Parks and Recreation payroll flow chart (Attachment A) which outlined the time recording process from the time an employee is hired, added to the payroll system, and starts to report hours. The flowchart allowed us to follow steps in the time reporting process and to review controls in place that help ensure the validity and accuracy of any applicable adjustments.

Most Parks and Recreation sites used the automated Kronos time reporting system. A few used a punch card system, and others reported their time on hand-written time cards. These three time recording systems each interfaced with the County's central payroll system by various means, as discussed further.

Parks and Recreation uses a time reporting system called Kronos instead of the County's own "TCRD" system, because of its ability to quickly record employee time with the swipe of a card. TCRD, requires a process of logging into the system and

entering time from an interactive computer screen. Also, Kronos fulfills Parks and Recreation budgeting requirements for reporting time by activity, a capability that TCRD has, but not all Parks and Recreation personnel have access to computers for data input into TCRD. Over 40 activity codes are available in Kronos. Each agency within Parks and Recreation uses Kronos for reporting time except Mill Creek Canyon, the Parks Department, and Equestrian Park, which use paper time cards. Moreover, paper time cards are necessary for some part-time employees in Parks Operations because their travel from one site to another during the day restricts access to a Kronos card reader. Equestrian Park is in the process of implementing the Kronos system. Supervisors have a training manual to assist in making any adjustments and to help new employees in entering their time.

Card readers only record swipes of the card and cannot be used to make adjustments. Correction of errors, or leave, such as vacation and sick time, are performed from a supervisor's computer. The computer can also be used to view each employee's activity in recording time. The number of card swipes, the times these were made, and any subsequent adjustments that an employee has made over the payroll period can be viewed from the computer terminal.

Electronic records remain in the Kronos system for two pay periods after which they are deleted. Though records are not archived electronically, Parks and Recreation does retain paper reports generated from Kronos for the required three year period.

In addition to full-time and part-time merit employees, the Division has a large number of temporary employees, including youth ages 14 to 15, for which special FLSA requirements apply, including a limit in the number of hours they can work. Kronos tracks these hours, allowing supervisors to determine whether young teenagers are exceeding their limit.

When hiring a new employee, all newly hired employees, complete part of the personnel action form. The form is approved at five different levels. At the time an employee is hired, he or she is assigned a time card with an identifying code five to seven digits in length. This number also appears on the personnel action form completed by the employee. The card, given to the employee at their assigned site indicates the sub department or site location code to which the employee is assigned, and is used to swipe through the Kronos reader to record in/out times. A bar code strip is attached to the card with the assigned number. Parks and Recreation administration enters the encoded information into Kronos. Kronos interfaces with an Information Services (I/S) server which updates the County's master payroll files overnight with information of the new hire. By the next day, the employee can swipe the card through the site card reader for recording time worked.

Time recorded in Kronos at each site is transmitted electronically to a central server (pulling computer) in administration at the end of the payroll period. Supervisory

review and approval of information on the time sheet screen is required before transmission takes place.

Either an employee or a supervisor can enter leave time into Kronos. Other circumstances, such as call outs, where an employee reports to work for emergencies or extraordinary needs outside of normal work hours, are entered by the employee and approved by a supervisor. Leave slips are used to monitor vacation and sick leave, and serve as back up documentation for leave recorded in Kronos or on time sheets.

Paper time card data used in Parks Operations, where the Kronos system has not been implemented, is copied onto paper time sheets. Time sheets are taken to administration twice a month to correspond with each payroll period, and are monitored the same as electronic time sheets. Administration enters information from these time sheets into PRTA. Parks and Recreation administration also prepares hand written time sheets not only from manual sign in/out sheets but also from Kronos data. Completing the manual time sheets serves a record keeping purpose only so far as Kronos is concerned because Kronos electronically interfaces with PRTA, and does not require data to be manually entered into the County's central payroll system. Temporary employees do not accrue leave time. Therefore, a different time sheet format is used for them, one that does not include spaces for recording leave time.

An administration employee monitors the pulling computer from which time card information at each card reader site is downloaded each morning via a modem connection. The pulling computer converts the data into an activity report, and identifies any anomalies. If card reader information from a site reader is not collected, or system errors are present, Kronos identifies these sites.

As previously mentioned, a supervisor at each site reviews and approves Kronos time cards at the end of the pay period. Supervisors use their own system password as their electronic signature. If the supervisor is not present, the on-site director signs the Kronos report instead of the supervisor. Administration cannot accept the report until supervisory approval is made. In addition to the supervisor, section and assistant section directors also approve the Kronos report. The payroll coordinator in administration verifies that required reviews and approvals are in place.

Administrative personnel conduct their own review following the supervisor, section and assistant section directors approvals. Two employees in administration review individual time sheets and compare them to PRTA. After the administrative coordinator reviews all recorded employee information, including leave, she enters manual time sheet information into PRTA. I/S prepares a Summary Report (B411) of all employee hours based on PRTA data. The coordinator reviews the report, makes any further adjustments and then prepares a time and attendance register for approval and signature of the Division Director.

From an on-line screen, the Personnel Division reviews the accuracy of pay and employee classification. Auditor's Office personnel give their final approval to payroll after they have reviewed the report for accuracy of pay, vacation and sick leave availability and additional earnings. The process just explained requires four days to complete because of the 2,000 to 4,000, depending on the season, Parks and Recreation employees on staff. Though controls are designed to prevent time reporting manipulation, any failure to follow these steps could allow errors to go unnoticed.

During our audit, we made on-site visits to the Parks Department, Equestrian Park, the Fairmont Aquatic Center, Copperview Community Center, and Riverbend Golf Course. We reviewed their use of either the Kronos or manual time card reporting systems. We discussed system functions and viability with employees at those sites to gain perspective and insight from users. We noted that a supervisor at each site reviews and approves time cards or time sheets whether generated manually or automatically through Kronos.

A Kronos operating manual was on-hand at each site. The supervisor's PCs were linked to card readers for purposes of monitoring reported time and use in making needed adjustments and entering leave time. Each supervisor interviewed was aware of his/her responsibilities, and reviewed with us each step in their monitoring of reported time. From their computer monitors, supervisors showed us how they could view each employee's time that had been entered from swiping a card. Employees were satisfied with the system, they easily followed instructions for using the card readers, and they understood benefits updates based on information derived from Kronos.

### **Independent Contractors**

We obtained a list of approximately 600 individuals or companies that have contracted with Parks and Recreation to perform a variety of jobs, including work as referees, classroom teachers, or clinical instructors. As a matter of routine procedure, the contractor completes a formal agreement on one of two County-approved forms, the "Agreement to Provide Sports Officiating" or the "Agreement to Provide Class/Program Instruction." A program director within the Division approves the agreement. The "Salt Lake County Recreation Imprest Account Reimbursement Schedule," provides contractor payment guidelines. The contractor completes a payment voucher after each contracted task, such as refereeing a game, is completed. Two administrative levels of Parks and Recreation managers approve vouchers for payment.

Parks and Recreation contracts with a third party administrator, or vendor, to process vouchers, issue checks, and maintain payment records. The Division forwards voucher information to the vendor who then prepares payments for each contractor. The third party administrator prepares checks from a County imprest checking account and forwards these to the account custodian in Parks and Recreation for signature and

delivery to payees. The vendor sends I/S a year-end report of contractor payments. I/S forwards this list to the Auditor's Office which then prepares and issues Treasury Form 1099.

### **Findings**

Our work was designed to provide reasonable, but not absolute, assurance that controls over time reporting functions were adequate, that records were current, and that the recording of time was consistent and systematic. To assist us in making this determination we selected for review a pay period within the time frame of January 1 through April 15, 2005, and compared hours shown on the time and attendance report (PRTA) to time reported on individual time sheets. We assessed differences between time sheet and PRTA hours, and determined whether any adjustments were valid.

We performed this analysis by sampling 58 employees from PRTA for the period selected. All 58 reported their time using Kronos or a manual time card system. As already noted, most employees report their time in the automated Kronos system. No other source exists against which to verify Kronos reported time. Time card swipes are not observed or otherwise verified by a separate, independent source. Management could only assume that card swipes were made by employees to whom the card was assigned, and not by someone else signing in and out for that individual. In the summer, Parks and Recreation has approximately 4,000 employees. Therefore, the 58 time sheets we examined represented a small portion of total time recorded. We found agreement between the time sheets and PRTA records reviewed, with no discrepancies.

Our audit of regular time recording and reporting, and time reporting by contracted workers resulted in the following:

- **Supervisors were not periodically observing employees as they swiped their cards at the Kronos time card reader.**
- **Supervisors were not reviewing time sheets of temporary workers for hours that may have overlapped with any contracted hours worked.**
- **The processing of Treasury Form 1099 for independent contractors was not being performed according to Countywide policy and Federal statutes.**

**Supervisors were not periodically observing employees as they swiped their cards at the Kronos time card reader.** System controls and reviews are designed to require that more than one person verify reporting of time by employees. Based on our discussions, we noted that supervisors and administrators demonstrated competent and adequate knowledge relating to time keeping systems in place. Employees we talked with felt that the system accurately recorded their time.

However, we observed one gap where the potential for abuse is present. Supervisors are not periodically observing employee actions at the card reader, and no one in higher authority is observing the supervisors or program managers' actions. Typically no one in higher authority is on-site. At one of the locations we visited, personnel told us that a merit employee had manipulated his time, was caught on camera doing so, and was subsequently terminated. Cameras are not installed at every site to monitor card readers, and a supervisor cannot observe every employee's actions at the card reader at all times.

However, supervisors should periodically review employee actions at the card readers to help prevent system abuse and fraud, and to encourage employees to maintain good habits of time reporting. An assistant section manager should periodically review the supervisor and program manager's actions at the card reader, as time allows. If cameras are not installed on-site, these reviews would help prevent any system manipulation.

#### **RECOMMENDATION:**

*We recommend that supervisors periodically observe employees entering time at readers where no cameras are in place to monitor these actions, and that assistant section managers likewise review actions of supervisors and program managers as time allows.*

**Supervisors were not reviewing time sheets of temporary workers for hours that may have overlapped with any contracted hours worked.** As noted, some contractors may also work as temporary employees. Adequate monitoring processes were not in place to determine whether a temporary worker's regular hours overlapped with hours reported under contract. A person should be paid only for hours worked as a County employee or a contractor, but not simultaneously as both. Supervisors should review time sheets to determine whether any overlap in hours has occurred. If hours do overlap, corrective action should be taken to ensure that employees are not being paid both as a County employee and contracted worker for the same hours worked in both capacities.

#### **RECOMMENDATION:**

*We recommend that supervisors review time reports for any overlap between hours worked as a contractor and hours worked as a County employee, and that any such practices, if discovered, are discontinued.*

**The processing of Treasury Form 1099 for independent contractors was not being performed according to Countywide policy and Federal statutes.** We obtained a list of contractors and compared the list to those individuals who had been issued a Treasury Form 1099. Our purpose was to determine whether contracted workers were

issued the form according to Salt Lake County Parks and Recreation Division policy, and procedures governing the Sports imprest account. Federal Statutes Title 26 of United States Code (Internal Revenue Code) Section 6041, and other sections, requires a payer to issue Form 1099 to any non-employee who performs a service for pay and receives income of \$600 or more in a taxable year. Corporations are exempt from being issued a Form 1099.

The third party administrator considered any contractors with a Federal Tax Identification Number to be exempt from the need for issuance of a Form 1099. In addition some contractors with Federal Tax ID numbers were not providing Form W-9. Form W-9 provides evidence of an entity's continuing tax exempt status. A copy of it should be provided to the County. Federal Statutes allow payers, such as the County, to demand information provided on Form W-9.

Parks and Recreation administrative personnel listed 14 contractors that reported Federal Tax ID numbers. Because contractors reported these numbers, the third party administrator classified these individuals or entities as exempt from Form 1099 and excluded all 14 from the list sent to I/S of individuals requiring issuance of this form. The third party administrator considered all of them as corporations. Our research verified that most of the 14 were, in fact, registered as corporations with the Utah State Department of Commerce and therefore did not need to be issued a Form 1099. However, charters had expired on three of these, even though previously they had been registered. In addition, there was no corporate record at all for three others, and another two were, in fact, individuals and therefore should have been issued a Form 1099. Therefore, the listing of Form 1099 recipients received at the Auditor's Office was incomplete.

Parks and Recreation is working with the third party administrator to resolve this problem in issuing an accurate list of Form 1099 recipients to ensure that all non-corporate entities will be included. Non-corporate entities with Federal ID numbers that should have been issued a Form 1099 had received income from the County in amounts ranging from \$630 to \$40,762. Parks and Recreation has since sent letters to eight entities to request a form W-9 by which their corporate status can be verified.

#### **ACTION TAKEN:**

**Parks and Recreation is in the process of correcting the problem of Form 1099 issuance by verifying whether contractors are individuals or corporations and clarifying this status with the vendor to ensure that forms are issued to entities that should receive them.**

### **Employees as Contractors**

We compared Parks and Recreation contractor listings, and a sample of seven vouchers prepared by contractors, to employee lists for 2004 and 2005. We performed this step to determine the existence of any duplicate names between employee and contractor lists. We also wanted to determine if any temporary or part-time employee who doubled as a contract worker, was receiving excessively large payments under contract.

There was some concern that Parks and Recreation administrators might have been contracting with family members. We found that some contractor surnames were identical to administrators in Parks and Recreation, but payments to these contractors were small and consistent with payments to other contractors.

Part-time and temporary employees are allowed to enter into separate contracts with Parks and Recreation to perform services. However full-time merit employees are prohibited from doing so. Policy provisions under the caption *Contractor* in “Salt Lake County Parks and Recreation Division Policy and Procedures for the Sports Imprest Account,” state, “*Salt Lake County Recreation Section merit employees shall not contract with the program... Salt Lake County Recreation Section seasonal or temporary employees may contract with the program for approved services.*”

Our matching of employee names against the list of contractors yielded five identical names. These individuals were full-time employees. However, further research showed that all five had been hired some time after they had received their last contract payment. Many part-time and temporary employees were also listed as contractors, but payments to them were not significant enough to indicate preferential treatment. The most any contractor made, who doubled as a temporary or part-time employee, was \$2,400 for the year 2004.

Glen Lu, Director  
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We appreciate the cooperation and assistance received from Parks and Recreation personnel during our audit, and hope that information presented here will be of benefit to the organization. If we can be of further assistance to you please contact us.

Sincerely,

James B. Wightman CPA  
Director, Internal Audit Division

cc: Chris Crowley  
Linda Hamilton  
Greg Folta  
Paul Ross  
Thora Bell

**SALT LAKE COUNTY PARKS & RECREATION  
PAYROLL FLOW CHART**

