

## **Mitigate Risks Through Reasonable Timekeeping Controls**

### **Introduction**

Every year the OIG receives a number of time fraud-related complaints. The OIG sometimes directs these complaints back to the public employer because responsibility for the integrity of payroll rests with that employer. The OIG expects the public employer to investigate the complaint and review its internal controls and procedures.

In some instances, the OIG investigates time fraud complaints and publicly reports its findings and recommendations. You should read these public findings and recommendations for best practices that your own jurisdiction can adopt. In this advisory, the OIG lays out why you should understand timekeeping and time reporting risks to your payroll and seek to mitigate those risks. The OIG also offers recommendations for timekeeping controls that you can readily implement.

### **What You Should Know**

Payroll is one of the largest and most significant expenditures for your municipality. Ensuring that the individuals who serve our cities and towns are timely and accurately compensated for their work is one of your key obligations as a public employer. While many laws speaking to timely and accurate payments are in place, payroll fraud ranks as one of the top five fraud schemes impacting government.<sup>1</sup>

Some forms of time fraud are easily recognized. Other forms are so subtle that they can go undetected if a municipality doesn't know where its timekeeping process is vulnerable. And risks to payroll are not always associated with fraudulent behavior. For some public employers, payroll is vulnerable to waste and abuse from historic practices that do not prioritize responsible management practices. Implementing timekeeping controls and oversight processes will reduce payroll vulnerabilities and protect public resources.

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<sup>1</sup> Association of Certified Fraud Examiners, *Occupational Fraud 2024: A Report to the Nations*, available at [2024-report-to-the-nations.pdf](#).

## Costs and Benefits of Timekeeping Controls

Many cities and towns face resource challenges that can impede efforts to introduce comprehensive timekeeping controls. Are the benefits of additional controls worth the costs?

The answer is yes.

Remember that having these controls constitutes a sound business practice and good governance. Timekeeping controls are needed to ensure the integrity of your municipality's payroll expenditures. Having confidence in your employees' time records can also increase your ability to reliably evaluate operational efficiency. Last but not least, comprehensive timekeeping controls are your first, and best, defense against the many forms of time fraud, waste, and abuse. The benefits of timekeeping controls more than justify the cost of implementing them.

## What You Can Do

1. *Create and maintain timekeeping practices.* Employee time reporting should be completed consistently and in a manner that can be tracked and monitored. Employees should be paid based on actual time, rather than scheduled time.
2. *Implement policies for employee schedules.* Employees at all levels of responsibility should have set schedules. Even if you allow flex schedules, you should establish core business hours. You should have written policies for holiday hours and early dismissals. Overtime and compensatory time should always require written approval.
3. *Adopt written policies and procedures.* Every public employer should have robust written policies and procedures related to time reporting. These policies and procedures should address the entire timekeeping process, from scheduling, reporting, monitoring, approval, and verification, to payroll processing and post-payment reconciliation. Policies should identify penalties for false reporting.
4. *Ensure accountability.* Your time reporting process needs to include management monitoring to verify the information that your staff reports. Management should not approve time reports for payroll processing unless managers have a reasonable level of confidence in the time reported. Conduct periodic audits to confirm the effectiveness of your monitoring efforts.
5. *Segregate duties throughout the timekeeping process.* Assign different staff members to handle each part of the timekeeping process. For example, an employee should not approve their own time report. Similarly, an employee who processes payroll or payments should not be in charge of approving time reports.
6. *Establish specific procedures and controls for multi-departmental employees.* If you have employees who divide time between departments in the same municipality and are paid from different funding sources, you need to assign responsibility for monitoring and approving their time.
7. *Adopt an outside activity disclosure policy.* You need to have a policy requiring employees to disclose

outside activities and employment. This policy will allow you to identify potentially overlapping or conflicting schedules. Outside activity disclosures will also help you identify – and ideally prevent – conflicts of interest and other ethical concerns.

8. *Provide regular staff training.* Employees who understand timekeeping processes and tools are less likely to inadvertently violate the rules. Regular training helps to ensure that all employees understand timekeeping controls and receive necessary updates. Employees should not be in a position to use the excuse that they don't know the rules.
9. *Don't ignore red flags of possible time theft or abuse.* Common red flags include using unapproved overtime, missing meetings or deadlines, failing to communicate in a timely manner, and reporting work time that differs from verified time. Tips or complaints from employees about time theft and abuse can help you identify actual abuses, as well as risks in your timekeeping process. You should have a fraud reporting system in place already. Send the clear message that employees can use that system to report concerns related to time fraud, waste, and abuse.
10. *Set policies for remote work and comp time.* If you allow remote work or comp time, implement written policies describing how such time is authorized, requested, and reported. Establish an effective method to monitor comp time balances.
11. *Add employee attestations to time reports.* Time reports should include a certification from the employee that their report contains true and accurate information. Adding this feature provides deterrence against fraud and abuse. Making a false attestation may provide grounds for criminal, civil, or administrative action.

Establishing timekeeping controls and oversight policies is fundamental to protecting public funds and to safeguarding your municipal payroll against time fraud.

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