Avoiding timekeeping fraud: The private sector

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This is part one of a two-part series exploring timekeeping in the private and public sectors.

Vigilant timekeeping practices ensure that the appropriate daily wage is paid for an accurate account of hours spent by workers on the job. If that is not the case, either employees are underpaid in violation of wage-and-hour laws (or collective bargaining agreements), or employers are not maximizing their return on wages paid.

This first part of a two-part series is devoted to the private sector employer. Part two in the next issue of *CEP Magazine* will address the public sector employer (essentially government contractors providing services).

A day's wage for a day's pay?

Timekeeping fraud is the intentional falsification of a record of time spent at work for which compensation is falsely paid. An employer's payment of wages and salaries for work not performed erodes profit margins, marginalizes profitability, and sends the wrong message to a workforce. Employers that monitor their workers' output and time spent working will have a competitive advantage. Employers that are complacent will suffer skewed production that hampers their ability to control costs and forecast resource allocations. This ultimately will distort cost centers and stakeholders' assessments of profitability and business risks.

An accurate tally of time charged by employees originated with old-style mechanical time clocks that collected time worked to determine wages earned. This protected business owners by ensuring employees worked the number of hours claimed. (Timekeeping fraud in real time translates into a loss of profit for a company, just the same as if an employee embezzles company money or steals assets.) Conversely, time cards also protected employees by providing an accurate record of wages due for hours worked. A good steady state between employers and employees resulted. Unfortunately, timekeeping and technology changed.

One person's timekeeping fraud is another's time to goof off

Fraud is defined by Merriam-Webster as the "intentional perversion of truth to induce another to part with something of value or to surrender a legal right." Fraud has affected businesses for hundreds of years, and time card fraud was, by extension, bad employees doing bad things. Studies during the 1950s noted that almost 45% of US hourly workers admitted to "goofing off" while on the clock, and a remarkable one out of five workers admitted to "buddy punching time cards," or clocking coworkers in or out who were absent.

Enhanced timekeeping software does constrain buddy punching if passwords and other controls are safeguarded. However, certain job roles are more prone to timekeeping fraud, such as employees who work remotely or have higher levels of autonomy to record their own time.

There are numerous examples of timekeeping fraud. One prominent case involved CH2M Hill, a government contractor for the U.S. Department of Energy in eastern Washington State. The company was cited for employee timekeeping fraud and severely punished ($18.5 million) under the False Claims Act (FCA).[1] Fines and penalties in the private sector are not so prominent, however, but a survey of shift workers by the American Payroll Association (APA) in 2015 found that 43% of workers inflated their hours. APA also reported that time theft can cost companies up to 7% of their gross annual payroll. A business that pays out $1 million in annual payroll could be losing up to $70,000 each year due to "stolen" time! Extrapolated for employers nationally, the loss exceeds $400 billion annually.[2]