

**MARYLAND-NATIONAL CAPITAL PARK & PLANNING  
COMMISSION**

**Vendor - Employee Reclassification  
Report Number: CW-008-2017**

**September 25, 2017**

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**II. Detailed Commentary and Recommendations**

None

## I. EXECUTIVE SUMMARY

### A. Overall Perspective

To comply with Internal Revenue Service regulations, the Commission initiated a vendor transition project in 2015. A vendor transition team was identified, led by the Department of Human Resources, and included personnel from Commission departments and divisions.

The goal of the project was to<sup>1</sup>:

- improve consistency in compensating individuals who perform similar work;
- make our employment and compensation policies more consistent with other recreational employers in our region; and
- enhance overall compliance with tax regulations.

The project included three phases:

- **Phase I** – Review all current vendor contracts (approximately 120) and determine if they should be converted to Commission employees, and process accordingly. The identified vendors were converted to employee status at the end of December 2015. The positions were compensated at the minimum pay rate plus a revenue sharing opportunity equal to 50% of the total collected class revenue generated by the classes that the employee taught.
- **Phase II** – The Commission reviewed broader policy issues related to contracting with business organizations which provide comparable or the same recreational services delivered by M-NCPPC employees. During this phase, the Commission focused on consistency, pay equity and tax compliance. In that process, it was determined that an additional group of vendors needed to be converted to an employee status. These vendors included those that instruct sports, art, aquatics or academic classes. Those vendors were converted to employee status at the end of December 2016. The positions were compensated at the minimum pay rate plus a revenue sharing opportunity equal to 50% of the total collected class revenue generated by the classes that the employee taught.
- **Phase III** – Review all current employees with a job title “instructor”. Determine correct wage and status. Phase III is currently on-going.

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<sup>1</sup> Per September 12, 2016 letter to M-NCPPC staff from Patricia Barney, Executive Director.

## **B. Audit Scope, Objectives, and Methodology**

**Objective and Methodology:** The purpose of this audit was to evaluate the system of internal controls supporting the vendor to employee reclassification effort.

**Audit Scope:** The scope of our audit was limited to the review of phase 1 transactions, (conversion of contract vendors to Commission employees).

The audit included but was not limited to the following audit procedures:

- Reviewing applicable Commission practices and procedures.
- Interviewing employees to obtain an understanding of the vendor to employee process. Interviews were conducted with:
  - Classification and Compensation Manager, Human Resources Division;
  - HRIS Manager, Human Resources Division; and
  - Office Manager, SHW Division.
- Obtained and reviewed:
  - Employment Acceptance Letters for transitioning employees;
  - Former vendor vetting documentation; and
  - Payroll data for newly transitioned employees.
- Selecting a judgmental sample of employee files for review.

The audit was conducted in accordance with the *U.S. Generally Accepted Government Auditing Standards*. Those standards require that the audit be planned and fieldwork performed to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the established audit objectives.

The audit covered the period from 01/01/16 through 07/30/17.

**C. Major Audit Concerns**

The results of our evaluation and testing did not identify any major audit concerns.

## E. Overall Conclusions

The results of our evaluation and testing procedures indicate no major weaknesses in the design or operation of internal controls for phase I of the vendor transition project. On an overall basis, we consider the controls to be satisfactory.

We wish to express our appreciation to the Human Resources Division management and staff for the cooperation and courtesies extended during the course of our review.



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Senior Auditor



Renee M. Kenney, CPA, CIA, CISA  
Chief Internal Auditor

September 25, 2017

### Conclusion Definitions

<b>Satisfactory</b>	No major weaknesses were identified in the design or operation of internal control procedures.
<b>Deficiency</b>	A deficiency in the design or operation of an internal control procedure(s) that could adversely affect an operating unit's ability to safeguard assets, comply with laws and regulations, and ensure transactions are properly executed and recorded on a timely basis.
<b>Significant Deficiency</b>	A deficiency in the design or operation of an internal control procedure(s) which adversely affects an operating unit's ability to safeguard assets, comply with laws and regulations, and ensure transactions are properly executed and reported. This deficiency is less severe than a material weakness, yet important enough to merit attention by management.
<b>Material Weakness</b>	A deficiency in the design or operation of an internal control procedure(s) which may result in a material misstatement of the Commission's financial statements or material impact to the Commission.

## **II. DETAILED COMMENTARY AND RECOMMENDATIONS**

None