

# Payroll Fraud



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# Fraud Facts

- According to the 2020 Report to the Nations released by the Association of Certified Fraud Examiners (ACFE), organizations lose 5% of their revenue to fraud each year.
- The ACFE found the average loss per case was \$1.5 million.



# School District Fraud Study Results

- There was a study in 2021 where an accounting firm reviewed 57 cases of fraud in the news in the past few years that impacted school districts across the country.
- The results of the study showed that districts of all sizes are susceptible to fraud.
- They found that small schools may not have strong internal controls or sufficient segregation of duties.
- They found that larger districts have such high volume of transactions and disbursements that fraud can slip through the cracks.



# School District Fraud Study Results

Fraud Category	# of Cases	\$ Loss
Misuse of Funds / Theft (Cash/Check/P-Card)	27	\$
Vendor Fraud (Kickbacks / Conflicts of Interest)	17	\$\$\$
Phishing Scams	7	\$\$\$\$
Payroll Fraud	6	\$\$
<b>Total</b>	<b>57</b>	



# School District Fraud Cases

- Ghost Employee Scheme – technology employee didn't show up to work for 2 years and colluded with a school bookkeeper to clock in
- Payroll Supervisor changed names on vendor/employee checks to their name before printing, while posting the correct name in the check register to conceal the fraud
- Payroll Clerk received unauthorized overtime by forging the supervisor's signature
- The next slide shows a summary of the 6 payroll fraud cases reviewed by the Firm



# School District Fraud Cases

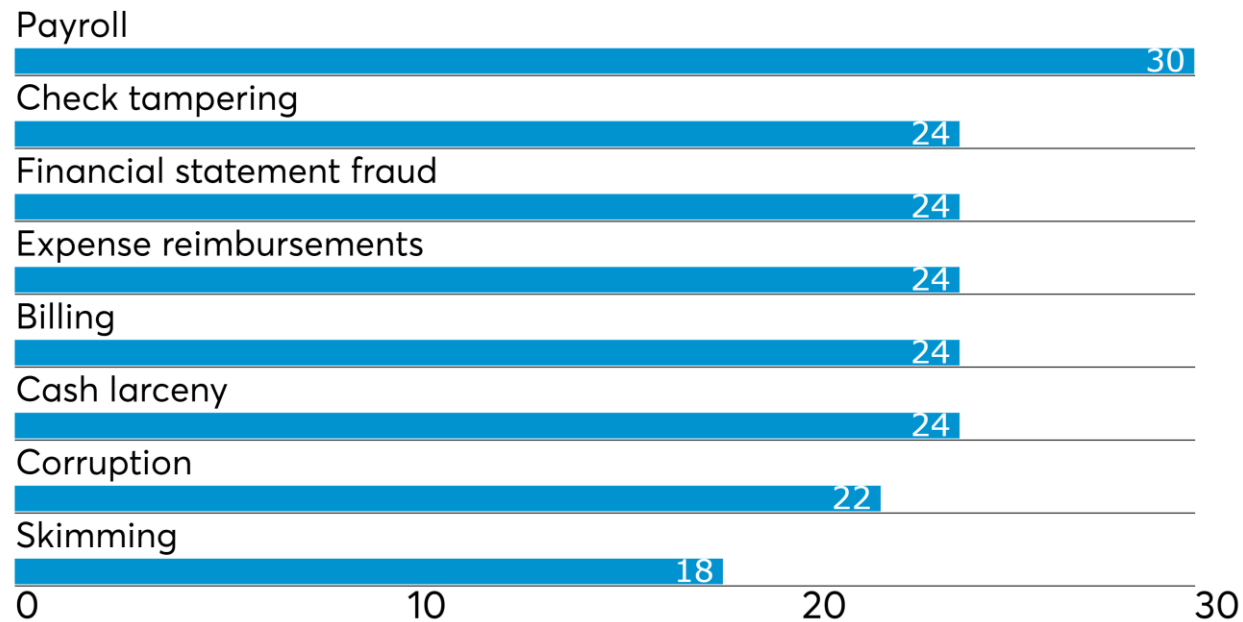
Description of Scheme	\$ Loss
Ghost Employee	\$122,000
Forged Payroll Checks	\$320,000
Unauthorized Overtime	\$23,500
Reduction of Income Taxes	\$8,400
Unauthorized Salary from Federal Funds	\$125,000
Unauthorized Bonuses	\$30,000
<b>Average Loss</b>	<b>\$105,000</b>



# Payroll Fraud is Long-Lasting!

## Long-lasting schemes

How long the average fraud lasts, in months



Source: ACFE "2018 Report to the Nations on Fraud"



# Payroll Fraud Topics

- Phishing Scams
- Ghost Employees
- Timecard Falsification Schemes
- Pay Rates Manipulation
- Identifying Red Flags
- Detecting and Preventing





# Phishing Scams

- Aka “Payroll Diversion”
- Fraudster sends a fake email to HR or payroll department asking for a change to an employee’s bank account information
- They then provide a new bank routing and account number for an account they control



# Sample Phishing Email #1

**From:** John J. Super [mailto:[markdre45@gmail.com](mailto:markdre45@gmail.com)]  
**Sent:** Friday, April 10, 2020 2:49 AM  
**To:** [Jane.Payroll@leedsk12.org](mailto:Jane.Payroll@leedsk12.org); [jpayroll@leedsk12.org](mailto:jpayroll@leedsk12.org); [payrollj@leedsk12.org](mailto:payrollj@leedsk12.org)  
**Subject:** Payroll Information Change

Hello **Jane Payroll**,

I hope you are having a great day? I am changing my banking information on [payroll](#) and I need your assistance getting it done. What details do I need to provide to make necessary changes?

Regards,

**John J. Super**  
Superintendent of [Education](#)

On Fri, 10 Apr 2020 at 06:31, Jane Payroll <[jpayroll@leedsk12.org](mailto:jpayroll@leedsk12.org)> wrote:

[Fill out this form and return it to me.](#)  
Susan

**From:** John J. Super [mailto:[markdre45@gmail.com](mailto:markdre45@gmail.com)]  
**Sent:** Friday, April 10, 2020 9:52 AM  
**To:** Jane Payroll  
**Subject:** Re: Payroll Information Change

[Thanks Jane,](#)

I got the form. Is there a deadline by which I need to submit the form to have the change valid for my next paycheck?

Regards,

**John J. Super**  
Superintendent of Education

On Fri, 10 Apr 2020 at 08:00, Jane Payroll <[jpayroll@leedsk12.org](mailto:jpayroll@leedsk12.org)> wrote:

[Next week please](#)

**From:** John J. Super [mailto:[markdre45@gmail.com](mailto:markdre45@gmail.com)]  
**Sent:** Friday, April 10, 2020 10:22 AM  
**To:** Jane Payroll  
**Subject:** Re: Payroll Information Change

Thanks Jane, also hope the next pay check will be deposited in my new [account ?](#)

On Fri, 10 Apr 2020 at 08:35, Jane Payroll <[jpayroll@leedsk12.org](mailto:jpayroll@leedsk12.org)> wrote:

[It will be, I will not process payroll until next Friday](#)

On Fri, 10 Apr 2020 at 09:33, John J. Super <[markdre45@gmail.com](mailto:markdre45@gmail.com)> wrote:

Ok, thank Jane. I will send you the form and other requirements on before next [Friday](#)

**From:** John J. Super [mailto:[markdre45@gmail.com](mailto:markdre45@gmail.com)]  
**Sent:** Friday, April 17, 2020 11:09 AM  
**To:** Jane Payroll  
**Subject:** Re: Payroll Information Change

Hello Jane,

[Hope your day is splendid?](#) Attached is the completed direct deposit change form and I am sending it along with a voided Check copy. Kindly confirm receipt.

Regards,

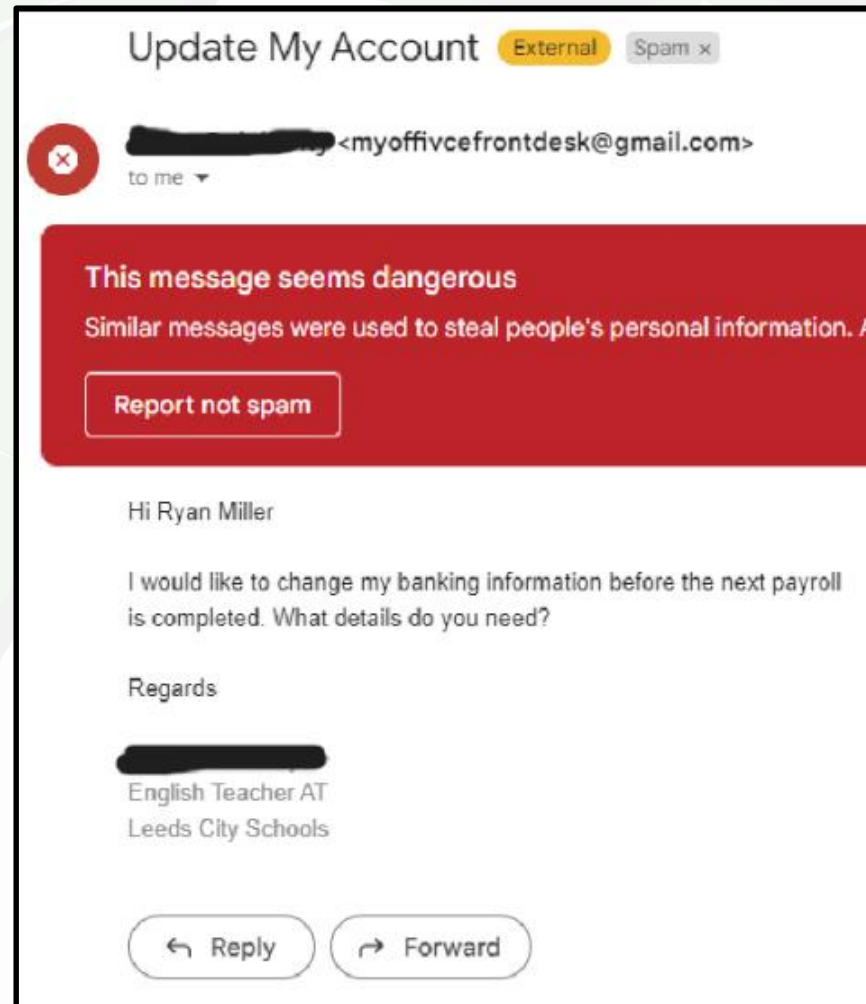
**John J. Super**  
Superintendent of Education

----- Forwarded message -----  
From: **Jane Payroll** <[jpayroll@leedsk12.org](mailto:jpayroll@leedsk12.org)>  
Date: Thu, Apr 30, 2020 at 8:41 AM  
Subject: FW: Payroll Information Change  
To: <[rdmiller@leedsk12.org](mailto:rdmiller@leedsk12.org)>

[I didn't look at the email, it is not John's](#) 😞



# Sample Phishing Email #2



# Phishing Scams Detection & Prevention

- Educate your employees!!!
  - Cybercriminals target employees with access to payroll information
  - Provide proper training so employees are aware of the risks and red flags
  - Implement a verification process to ensure that the employee involved actually requested the change
- Ensure that your District's policies and procedures are secure and not available publicly to cybercriminals.
  - Remember, without knowledge, hackers are unable to execute these scams
- Educate employees about not sharing personal information such as PINS, social security numbers, login credentials and bank account information through email or over the phone



# Ghost Employees

- Aka “Phantom Employees”
- Workers who exist only on paper
- Typically occurs in 2 ways:
  - Paychecks sent to employees who have passed away, quit, or been terminated; and
  - Paychecks sent to individuals who have never been on the company payroll



# Ghost Employee Case



- In many cases, the perpetrator is related to the phantom
- Kathleen McGuiness, the Delaware state auditor, was indicted in October 2021 on numerous charges.
- Among the allegations, McGuiness paid her daughter as a ghost employee while she was enrolled in college.
- When the daughter was a high school senior early in the pandemic, the state hired her as a public information officer. However, she did little work, and no work at all after the time she left for college.
- According to the indictment, the daughter was classified as an intern in the payroll system and paid close to \$20,000. Of that, \$2,300 was disbursed during her first semester in college. The paychecks were sent to a bank account in her mother's name.



# Ghost Employee Detection & Prevention

- Establish the following human controls to identify potential ghost employees:
  - Don't let the same person cut and sign checks
  - Schedule consistent third-party audits (if running payroll in-house)
  - Examine cancelled checks
  - Do a background check on all Social Security numbers on the payroll
  - Scrutinize employees with few or no deductions (Most people have some)
  - Request an update on personnel records (COVID – red flag if no email address or no changes provided)
  - Have CSFO review computer system authorization in order to verify that the HR Director/Manager does not have access to change payroll information
  - Run a report from the district's HR system showing all the employee addresses registered at the district (look for PO box numbers, duplicates, and employees with no addresses or addresses that appear to be spelled incorrectly)
- Examine computer data:
  - Computer login records
  - Badge swipe data
  - VPN logs or logs of company systems
- Ms. McGuinness's daughter's lack of activity could have been verified!



# Timecard Falsification Schemes

- The most common types of timesheet fraud:
  - Inflation of work hours
  - False entry of data (See Example)
  - Errors due to delays
  - Long breaks
  - Buddy punching
  - Favoritism





# Timecard Falsification Schemes Detection & Prevention

- Separate payroll set up, approval, and processing functions
- Require employees to take mandatory vacation time
- Cross train and rotate job duties of employees in payroll and HR
- Require managers to approve timesheets and overtime requests
- Get tougher on submission – instill strict policies that dictate the exact time the employees submit the timesheets
- Replace manual timesheets with digital ones (mobile clock-ins with locational restrictions)
- Switch to biometric time and attendance systems
- Formulate a clear time theft policy
- Develop a Company Culture (Employee Morale is Key!)



# Timecard Falsification Schemes Example

Annual Salary	Overtime Hours	Straight		Hourly Pay Rate	Date	Monthly pay	Additional ST		Additional OT		Total Pay Due	Total Pay Received	Difference	
		Time Hours	Overtime Pay Rate				Hours	Hours	Amount	Amount				
47,046.00	1.75	10.75	36.75	24.50	Jun-12	3,920.50	10.75	1.75	263.41	64.32	4,248.23	6329.55	2,081.32	
47,046.00	5.25	1.5	36.75	24.50	Jul-12	3,920.50	1.5	5.25	36.75	192.96	4,150.22	3994.01	-156.21	
47,046.00	6		36.75	24.50	Aug-12	3,920.50	0	6	0.00	220.53	4,141.03	6904.01	2,762.98	
47,046.00	13.75	14.75	36.75	24.50	Sep-12	3,920.50	14.75	13.75	361.42	505.38	4,787.30	8401.13	3,613.83	\$ 100,813.56
47,046.00	32.5	10.25	36.75	24.50	Oct-12	3,920.50	10.25	32.5	251.16	1,194.53	5,366.18	6806.03	1,439.85	
47,046.00	16	22.25	36.75	24.50	Nov-12	3,920.50	22.25	16	545.19	588.08	5,053.77	6168.71	1,114.94	
47,046.00	11		36.75	24.50	Dec-12	3,920.50	0	11	0.00	404.30	4,324.80	4324.85	0.05	
47,046.00		20.75	36.75	24.50	Jan-13	3,920.50	20.75	0	508.44	0.00	4,428.94	4428.88	-0.06	
47,046.00	10.25		36.75	24.50	Feb-13	3,920.50	0	10.25	0.00	376.74	4,297.24	4419.79	122.55	
47,046.00	6	0.5	36.75	24.50	Mar-13	3,920.50	0.5	6	12.25	220.53	4,153.28	4153.31	0.03	
47,046.00	5		36.75	24.50	Apr-13	3,920.50	0	5	0.00	183.77	4,104.27	4104.28	0.01	
47,046.00		3.5	36.75	24.50	May-13	3,920.50	3.5	0	85.76	0.00	4,006.26	4049.16	42.90	
47,046.00		3.5	36.75	24.50	Jun-13	3,920.50	3.5	0	85.76	0.00	4,006.26	5,906.26	1,900.00	
47,046.00	7.25	0.25	36.75	24.50	Jul-13	3,920.50	0.25	7.25	6.13	266.47	4,193.10	6,093.14	1,900.04	
47,046.00	2.75	11.5	36.75	24.50	Aug-13	3,920.50	11.5	2.75	281.79	101.08	4,303.36	6,203.34	1,899.98	
47,046.00	40.25	9	36.75	24.50	Sep-13	3,920.50	9	40.25	220.53	1,479.38	5,620.40	6,355.79	735.39	
47,987.00	32.5	3.25	37.49	24.99	Oct-13	3,998.92	3.25	32.5	81.23	1,218.42	5,298.57	6,273.28	974.71	
47,987.00	4.25	19.75	37.49	24.99	Nov-13	3,998.92	19.75	4.25	493.62	159.33	4,651.87	7,551.80	2,899.93	\$ 90,621.60
47,987.00	8.25	23.5	37.49	24.99	Dec-13	3,998.92	23.5	8.25	587.34	309.29	4,895.55	6,998.92	2,103.37	
47,987.00	1.5	23	37.49	24.99	Jan-14	3,998.92	23	1.5	574.84	56.23	4,630.00	8,023.48	3,393.48	\$ 96,281.76
47,987.00		21.25	37.49	24.99	Feb-14	3,998.92	21.25	0	531.11	0.00	4,530.03	6429.96	1,899.93	
						286,404.60			15,919.05	53,052.35	355,376.01	397,640.33	42,264.32	



# Pay Rates Manipulation

- Employees collude with the payroll clerk to increase the amount of their hourly pay in the payroll system
- A more clever clerk will then return the pay rate to its original level after committing this fraud for just a few pay periods, so that the issue is less easy to spot



# Pay Rates Manipulation Detection & Prevention

- Matching pay rate authorization documents to payroll register
- Mandatory vacations for those with payroll responsibilities with another employee performing this function in their absence
- The ability to modify wage rates, add employees, etc., within the system should be restricted to only those necessary
  - These individuals should have their records periodically reviewed



# Where can we start?

- Segregation of Duties – Divide responsibility for entering new employees into the payroll system and payroll processing (Utilize staff from other departments)
- Promote the use of direct deposit
- Use electronic time and attendance system
- Conduct periodic reviews to identify anomalies such as matching bank accounts for different employees, unusual employee numbers, missing personnel files, etc.



# Trust But Verify!

Everyone sees what you appear to be...



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...few really know what you are.

(Machiavelli)

more awesome pictures at [THEMETAPICTURE.COM](http://THEMETAPICTURE.COM)

