

---

## Ghost Employees

---

### The Scenario

The auditor was working on a hotline payroll audit at a Department of Defense agency. The anonymous tipster informed the audit office that timesheets submitted over the past few months contained the approval signature of a manager that had retired about a year ago. For the review, the auditor requested timesheets for the past 6 months and a current list of employees from the human resources department.

The auditor's examination of the list of employees confirmed that the manager was no longer an employee. Upon further inspection of the signatures on the timesheets, the auditor determined the signatures were erratic and contained unconnected lines that showed anxiety and nerves. Further, examination of the payroll records disclosed that the agency was issuing paychecks to individuals that were not employees. The auditor interviewed payroll and human resources personnel and discovered the following information:

- None of the fictitious employees had a personnel file.
- Multiple direct deposits were made to the same bank account but under different names.
- None of the fictitious employees had withholdings for taxes and Social Security.

Inquiries with agency management and the timekeeper disclosed that the timekeeper received inadequate training upon her arrival to the agency 6 months ago. The timekeeper was not properly trained on the procedures to perform to compare and verify employee information against personnel records to make sure those persons who submit and authorize timesheets actually work for the agency.

The auditor concluded that an employee added 5 ghost employees to the payroll system. The employee also falsified timesheets for the ghost employees and approved them, using a forged signature.

**General Comments / Lessons Learned.** No agency is exempt from ghost employee schemes. As long as there is a payroll office, the potential for this type of fraudulent activity exists. It is imperative that timekeepers receive adequate training on the proper procedures to perform and the potential consequences of fraud within the payroll system. Also, auditors must always remember that the Hotline is an important avenue for reporting potential fraud, waste, abuse, and mismanagement and cases should be reviewed thoroughly. Hotline investigations can save or recover significant monetary amounts.

## **FRAUD INDICATORS**

- **Signatures that are erratic and contain unconnected lines are red flags for a forged signature.**
- **Payroll records contain the names/signatures of individuals that do not work for the agency.**
- **Multiple direct deposits are made to the same bank account but under different names.**
- **Employee does not have a personnel file.**
- **Employee does not have withholdings for taxes and Social Security.**
- **Timekeeper receives inadequate training and is not aware of the proper payroll procedures to perform.**