FRAUD CASE STUDY – TIMESHEET FRAUD

Case

Three DoD employees pleaded guilty to defrauding the federal government of more than \$35,000 each for overtime that was falsely claimed. Their work environment was ideal for this type of fraud because overtime was consistently used when management determined that the work involved was essential to meet operational demands. Also, the employees knew their supervisor was too busy and failed to review timesheets for accuracy. The fraud was uncovered after management requested a timesheet audit because there were accusations that many discrepancies occurred between the hours employees worked and the hours reported on their timesheets.

The Auditors' Review of the Timesheet/Payroll Process

The auditors reviewed a sample of timesheets for 10 biweekly pay periods and other documents associated with an employee's pay. They also conducted interviews with supervisors and their staff, and those responsible for processing timesheets. The auditors identified several aspects of risk within the payroll/preparation of timesheet process. They found:

- Timesheets did not include an affirmation which refers to an employee validating that time and attendance data was true, correct, and accurate.
- More than half of the timesheets sampled were missing the signature of an authorizing official.
- Supervisors approved timesheets, but before sending them directly to those responsible for processing them, returned the timesheets to the employee, which provided the opportunity for the employee to fraudulently modify them.
- In some instances, overtime was paid to employees that were not eligible to receive overtime and there was no documentation to show that overtime was requested by an employee or approved by a supervisor.

The auditors determined there was a lack of controls to protect the agency from fraudulent activity involving timesheets and overtime. Those involved in the timesheet fraud admitted they took advantage of the weak internal control system and the fact that those responsible for processing timesheets were not adequately trained. Disciplinary action was taken against the employees, including recouping the monies they fraudulently obtained.

The auditors developed recommendations to correct the problems identified and help mitigate timesheet fraud. For example, they recommended:

- ✤ Supervisors:
 - Always sign timesheets to show they verified the number of hours worked.

- Refrain from returning timesheets to employees after they have been approved.
- Ensure overtime is pre-authorized by an appropriate official, documented and valid.
- Employees:
 - Sign an affirmation statement on payroll documentation validating that time and attendance data is true, correct, and accurate.
- Those responsible for processing timesheets:
 - Refrain from processing timesheets that do not contain the signature of an authorizing official.
 - Refrain from processing overtime pay that has not been approved.
 - Take periodic training to ensure proficiency.
 - Identify and resolve discrepancies in information submitted and processed during pay cycles.

What Type of Control Activities Can Mitigate Timesheet (Overtime) Fraud?

Control activities are the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system. To combat timesheet/overtime fraud, appropriate internal controls can act as barriers to corrupt conduct.

Objectives:

- 1.) To ensure timesheets and other payroll documentation accurately reflect the number of hours worked.
- 2.) To ensure payroll transactions are properly authorized and approved.

Risks:

- 1.) Timesheet processes, practices and controls may not be clear and consistently performed across the agency.
- 2.) Overtime transactions are not pre-authorized or accurately recorded.
- 3.) Monitoring processes are not in place to detect and communicate payroll problems, issues and risk of fraud and error.

Achieving objectives and responding to risks can be done in various ways:

- Develop clearly written policies and procedures setting forth the responsibilities of supervisors, employees, and timekeepers regarding recording, examining, and approving timesheets, overtime requests, and other payroll transactions.
- All employees should be made aware that improper reporting of time constitutes fraud and of the consequences surrounding timesheet/payroll fraud.
- Monitor timesheet procedures and processes to ensure there have been no discrepancies. This can act as deterrence in attempts to use deceptive practices.
- Training of employees, supervisors and timekeepers should be performed annually to ensure that the latest timekeeping procedures and practices are properly communicated.

Design of Control Activities at Various Levels

Management should design control activities at the appropriate levels in the organizational structure to ensure appropriate coverage of objectives and risks. For example:

- Proper mandatory advance approval by the supervisor for variations to payroll such as overtime.
- Inclusion of an affirmation on timesheets and other payroll documentation so employees can assert time and attendance data to be true, correct, and accurate.
- Ensure timekeepers and the payroll system have the capacity to recognize and notify management of anomalies.

What to Monitor

- How often overtime is claimed on an employee's timesheet Generate reports that can be used to verify that only eligible employees received payment and that the amount was reasonable.
- Training of employees, supervisors and timekeepers. Make sure they are up-to-date with training requirements for timekeeping procedures and practices.

Fraud Indicators

- ✤ Timesheets submitted are missing the signature of an authorizing official.
- Employee claims overtime that was not requested or approved.
- Evidence of modifications to timesheets, especially after it was signed by an authorizing official.