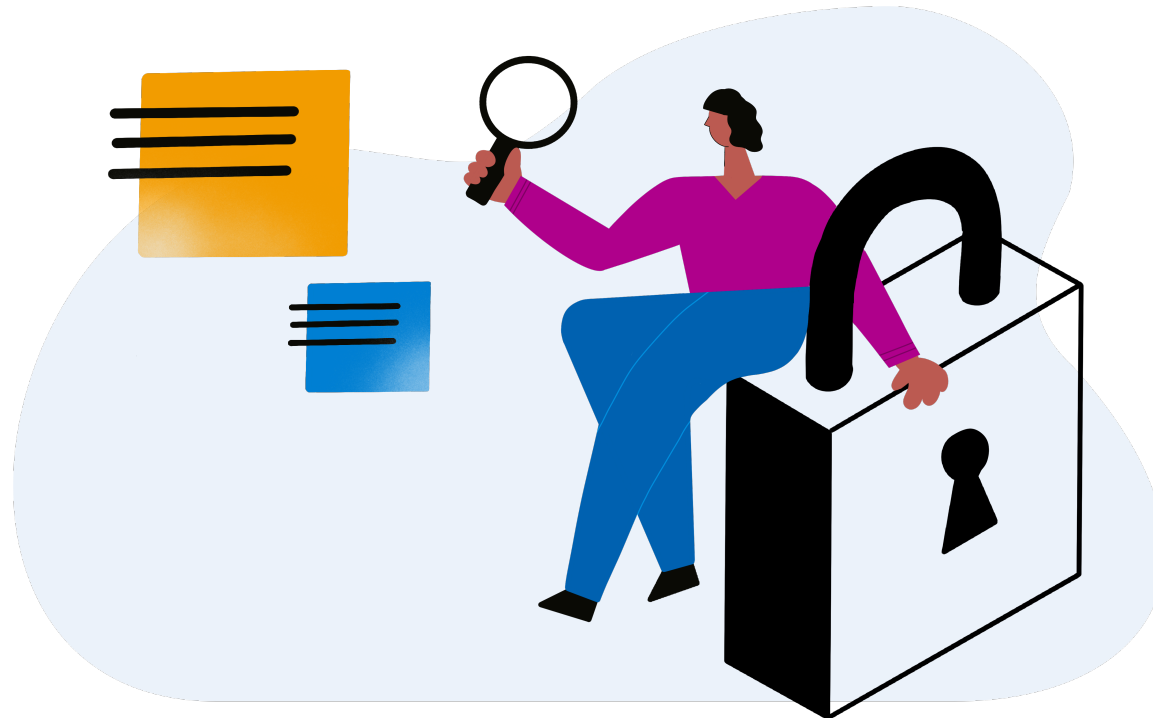





How to Detect Payroll Fraud



Payroll fraud is a common scheme in which an employee in the payroll department causes the employer to issue payments based on a false claim for compensation. According to the Association of Certified Fraud Examiners (ACFE), payroll fraud occurs nearly twice as often in small organizations with less than 100 employees than in large ones and the average instance of payroll fraud lasts about 36 months.

Common payroll fraud schemes include:

- **Ghost employees:** a person not employed by the company is on the payroll
 - **Overpayment:** a company pays an employee based on falsified hours or rates
 - **Commission:** the amount of sales made or the rate of commission is fraudulently inflated
- 

28 Red Flags of Payroll Fraud

While payroll fraud is hard to prevent, quarterly audits and payroll data analysis can be used to find red flags for payroll fraud. When examining payroll and Human Resources Department data, look for the following red flags:

- Unrelated employees with the same address
- Two or more employees with the same cell phone number or home phone number
- Multiple employees using the same bank account number
- One employee using multiple bank accounts for direct deposit
- An employee who is on the payroll but not on the company's employee list
- An employee with an address that is a PO box or mail drop
- Missing information in employee files
- An employee who shares an address, telephone number, or bank account number with an accounts payable vendor
- Payments to employees for holidays, weekends, or off-days
- Gaps in check number sequence
- A terminated employee who is still on the payroll list
- Unusually high overtime pay
- An employee who has been paid for working more than 24 hours in one day



- Employees with more than one address change within a year
- Duplicate pay checks
- Blank social security numbers
- Unusual number of checks issued for an employee in a year
- Invalid social security numbers (match with employee records)
- Multiple employees with the same social security number
- Employees on the payroll register before their start date or after their termination date
- Deceased employees who are still on the payroll list
- Manual payroll checks
- Multiple paychecks issued to an employee within a single pay period
- Employees with no deductions for taxes or benefits
- Unusual ratio of gross to net pay
- Bonuses paid during times when bonuses are not typically paid or to employees who are not eligible
- Employees with no pay increases, or more than two pay increases, in a year
- Employees who have had no paid time off, vacation, or sick leave



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