
Separated Employees

The Scenario

The auditor was working on a payroll audit at a Department of Defense agency. During the review, they requested a list of all current employees from the human resources department. The auditor compared the current employee list to the agency's official payroll records. This analysis disclosed the following exceptions:

- Three retired employees were listed as active employees in the agency's payroll system and were receiving bimonthly payroll checks.
- Five employees' departure dates were incorrect, which resulted in payroll overpayments.
- One employee left the agency six months earlier. However, at the time of the audit, they were receiving biweekly salary payments.

Inquiry with agency management disclosed that they were not aware of problems with payroll deposits to former employees or payroll overpayments. Managers stated that agency timekeepers were responsible for maintaining lists of current employees. Timekeepers were informed of changes in personnel and were responsible for updating the agency's official list of active employees. Management did not conduct periodic reviews of the agency's list of current personnel or review timekeeper's changes to payroll records because they did not think it was necessary. Inquiry with the human resources department disclosed that they did not provide each agency component with periodic lists of employees for review and reconciliation with payroll records because they believed the agency payroll records contained this information.

Interviews with agency timekeepers disclosed that the salary payments to retired employees and incorrect employee departure dates were caused by human error. However, one of the timekeepers admitted that they did not remove the employee that left the agency from the official payroll records because they were friends. On each payday, the friend would complete an electronic transfer of funds into their bank account in exchange for not removing their name from the agency's payroll record. The auditor referred the names of employees receiving unauthorized payroll benefits to a Department of Defense investigative agency.

General Comments / Lessons Learned. Within the Federal government, various types of payroll and employee benefit schemes have occurred. For example, a prior Department of Defense investigation uncovered a timekeeper that circumvented the payroll security system and added overtime hours they did not work onto the biweekly time and attendance reports. The employee received over \$14,000 in fraudulent payroll compensation for overtime hours that were never worked. Other fraudulent compensation schemes have included payments for retirement benefits to deceased Federal employees and service members. Auditors conducting payroll audits and/or

audits of employment benefits should verify the eligibility and authenticity of the employee receiving the benefit.

FRAUD INDICATORS

- **The agency payroll record contains the names of retired, separated, or deceased employees.**
- **Employee separation dates are not accurate.**
- **Management does not monitor timekeeper changes to the component's payroll record.**
- **The human resources department does not periodically provide lists of current employees for review and reconciliation with component payroll records.**
- **Employees receiving unauthorized benefits do not report the information to agency officials.**