

# Fraud Risk Assessment Tool

## Module #9 – Payroll Schemes

Payroll Schemes include:

- Ghost employee schemes, which occur when a person not employed by the company is on the payroll
- Overpayment schemes, which occur when a company pays an employee based on falsified hours or rates
- Commission schemes, which occur when the amount of sales made or the rate of commission is fraudulently inflated

## Questionnaire Key

*1. Is the employee payroll list reviewed periodically for duplicate or missing Social Security numbers?*

Organizations should check the employee payroll list periodically for duplicate or missing Social Security numbers that may indicate a ghost employee or overlapping payments to current employees.

*2. Are personnel records maintained independently of payroll and timekeeping functions?*

Personnel records should be maintained independently of payroll and timekeeping functions.

*3. Are references checked on all new hires?*

Organizations should perform reference checks on all new hires.

*4. Are sick leave, vacations, and holidays reviewed for compliance with company policy?*

Sick leave, vacations, and holidays should be reviewed for compliance with company policy.

*5. Are appropriate forms completed and signed by the employee to authorize payroll deductions and withholding exemptions?*

Employees should complete and sign appropriate forms to authorize payroll deductions and withholding exemptions.

*6. Is payroll periodically compared with personnel records for terminations?*

Payroll should periodically be compared with personnel records for terminations to ensure that terminated employees have been removed from the payroll.

*7. Are payroll checks pre-numbered and issued in sequential order?*

Payroll checks should be pre-numbered and issued in sequential order.

*8. Is the payroll bank account reconciled by an employee who is not involved in preparing payroll checks, does not sign the checks, and does not handle payroll distribution?*

The payroll bank account should be reconciled by an employee who is not involved in preparing payroll checks, does not sign the checks, and does not handle payroll distribution.

## **Fraud Risk Assessment Tool**

*9. Are payroll registers reconciled to general ledger control accounts?*

Payroll registers should be reconciled to general ledger control accounts.

*10. Are cancelled payroll checks examined for alterations and endorsements?*

Cancelled payroll checks should be examined for alterations and endorsements.

*11. Is access restricted to payroll check stock and signature stamps?*

Access to payroll check stock and signature stamps should be restricted.

*12. Are payroll withholdings for taxes, insurance, etc. examined to determine if any employees are not having these items deducted from their paychecks?*

Payroll checks that do not have withholdings for taxes, insurance, etc. should be investigated.

*13. Is the employee payroll list reviewed periodically for duplicate or missing home addresses and telephone numbers?*

The employee payroll list should be reviewed for duplicate or missing home addresses and telephone numbers.

*14. Is the account information for automatically deposited payroll checks reviewed periodically for duplicate entries?*

Account information for automatically deposited payroll checks should be reviewed periodically for duplicate entries.

*15. Is an employee separate from the payroll department assigned to distribute payroll checks?*

An employee separate from the payroll department should be assigned to distribute payroll checks.

*16. Are new employees required to furnish proof of immigration status?*

Companies must require new employees to furnish proof of immigration status.

*17. Does any change to an employee's salary require more than one level of management approval?*

Changes to an employee's salary should require more than one level of management approval.

*18. Does overtime have to be authorized by a supervisor?*

Overtime should be authorized by a supervisor.

*19. Do supervisors verify and sign timecards for each pay period?*

Supervisors should verify and sign time timecards for each pay period.

*20. Are commission expenses compared to sales figures to verify amounts?*

Comparing commission expenses to sales figures to verify amounts is an important control procedure that can help to detect payroll fraud.

*21. Does someone separate from the sales department calculate sales commissions?*

Someone separate from the sales department should calculate sales commissions.

# Fraud Risk Assessment Tool

Module 9- Payroll Schemes			
	Yes	No	Not Applicable
Is the employee payroll list reviewed periodically for duplicate or missing Social Security numbers? <b>Comments:</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Are personnel records maintained independently of payroll and timekeeping functions? <b>Comments:</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Are references checked on all new hires? <b>Comments:</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Are sick leave, vacations, and holidays reviewed for compliance with company policy? <b>Comments:</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Are appropriate forms completed and signed by the employee to authorize payroll deductions and withholding exemptions? <b>Comments:</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Is payroll periodically compared with personnel records for terminations? <b>Comments:</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Are payroll checks pre-numbered and issued in sequential order? <b>Comments:</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Is the payroll bank account reconciled by an employee who is not involved in preparing payroll checks, does not sign the checks, and does not handle payroll distribution? <b>Comments:</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

# Fraud Risk Assessment Tool

Module 9- Payroll Schemes			
	Yes	No	Not Applicable
Are payroll registers reconciled to general ledger control accounts? <b>Comments:</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Are cancelled payroll checks examined for alterations and endorsements? <b>Comments:</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Is access restricted to payroll check stock and signature stamps? <b>Comments:</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Are payroll withholdings for taxes, insurance, etc. examined to determine if any employees are not having these items deducted from their paychecks? <b>Comments:</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Is the employee payroll list reviewed periodically for duplicate or missing home addresses and telephone numbers? <b>Comments:</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Is the account information for automatically deposited payroll checks reviewed periodically for duplicate entries? <b>Comments:</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Is an employee separate from the payroll department assigned to distribute payroll? <b>Comments:</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

# Fraud Risk Assessment Tool

Module 9- Payroll Schemes			
	Yes	No	Not Applicable
Are new employees required to furnish proof of immigration status? <b>Comments:</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does any change to an employee's salary require more than one level of management approval? <b>Comments:</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does overtime have to be authorized by a supervisor? <b>Comments:</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Do supervisors verify and sign timecards for each pay period? <b>Comments:</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Are commission expenses compared to sales figures to verify amounts? <b>Comments:</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does someone separate from the sales department calculate sales commissions? <b>Comments:</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>