



# TECHNOLOGY CAN HELP REDUCE PAYROLL ERRORS AND FRAUD

By Edward Nagel

People face ethical dilemmas on a daily basis, in almost all aspect of our lives. While the penalty may be significant, we hope that the law of probabilities works in our favour. For example:

- ▶ **Should we answer that text while driving?** The risk is that there's a police officer around and we get hit with a ticket and possibly demerit points, which could also impact our insurance premiums. Or worse, we could be distracted and get in an accident.
- ▶ **Should we tell the person behind the booth that our child is less than 6 years old, to take advantage of a cheaper ski lift pass?** We could lose our ski passes for the day and perhaps future ski privileges.

While we may be able to survive a few demerit points and the loss of a daily ski lift pass, these potential deterrents are nowhere near the possible outcomes if we are caught committing fraud, which could invariably cause irreparable damage to our reputation and career.

## PAUL'S STORY

"Paul" (a pseudonym) was a seemingly ordinary employee. He consistently showed up to work on time and received stellar reviews from his managers.

In Paul's capacity as a regional supervisor, he was required to regularly hire sub-contractors. This involved preparing the paperwork for HR in order to set up the contractor in payroll. For simplicity, all contractors were paid through bi-weekly payroll, which were supported by timesheets.

This month, Paul needed two subcontractors for a series of ongoing projects within departments he managed. As Paul prepared the documents required by HR, he suddenly realized that no one ever questioned the paperwork he submitted.

To commit fraud or to not commit fraud? That is the question that crossed Paul's mind as he started preparing the forms for a third contractor—one that Paul knew full well did not actually exist. Unfortunately for Paul's employer and other stakeholders, the deterrents to committing fraud weren't sufficient to ward off his temptations, and his scheme expanded before he was caught.

## IMPLICATIONS OF FRAUD

The implications of fraud can include termination of employment for cause, possibly resulting in the loss of severance; a scarred employment record that could impact the ability to obtain future

employment; civil litigation and even criminal litigation, the latter of which could result in a criminal record and time spent behind bars.

And yet, many people continue to take that chance. According to the Association of Certified Fraud Examiners (ACFE), survey participants estimated that a typical organization could lose as much as 5 per cent of revenues each year to fraud of all kinds. If applied to the 2013 estimated Gross World Product, this translates to a potential projected global fraud loss of nearly \$3.7 trillion! Now, translating that into standard notation, that is \$3,700,000,000,000!

Recognizing that some people may be driven to cross that ethical boundary, organizations must take proactive steps to train staff to detect the signs of fraud. In the case of payroll, it may be as simple as looking for duplicate names, duplicate bank account numbers, unsupported adjustments, unusual fluctuations in payroll and invalid Social Insurance Numbers, just to name a few.

## TECHNOLOGY AIDS DETECTION

Discrepancies in payroll can often go undetected, particularly in cases of manual review (rather than with the help of automated techniques or software).

The use of software enables organizations to look for both intentional and unintentional changes to payroll. Given that errors in payroll are sometimes a precursor to fraud, payroll activity should be reviewed on a regular basis, ideally as often as payroll is run by the organization. Really, what it all boils down to is third-party reconciliation.

Automating the review of payroll can look for various potential issues—including those noted above—as well as more complex issues, including: calculation errors (e.g. tax, CPP and EI deductions); and inconsistencies between employment status and level of pay (e.g. person on maternity/paternity leave that is being paid full salary).

If I can leave you with one parting thought, always remember that trust is *not* an internal control! ■

<sup>1</sup>The Association of Certified Fraud Examiners Report to the Nations on Occupational Fraud and Abuse, 2014 Global Fraud Survey.

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