



M E M O R A N D U M

SUBJECT: Internal Controls Over Creation
of Ghost Employees (OIG 18-02)

DATE: August 3, 2017

FROM: OIG – Geoffrey A. Cherrington /S/

TO: GMGR – Paul J. Wiedefeld

As part of the audit of WMATA's Payroll Operations, the Office of Inspector General (OIG) evaluated the internal controls in place to prevent the creation of fictitious or ghost employees. This part of the audit was conducted at the request of a Board member. While the tests we performed did not identify any evidence of payroll fraud through the use of fictitious employees, WMATA's policy could be strengthened by requiring all employees to have their pay directly deposited.

This is a minor enhancement to an already strong internal control posture over ghost employee fraud. Consequently, OIG does not make any recommendations in this report. However, implementing this enhanced control over the area identified would add another layer of protection to WMATA's preventive controls over ghost employees. Management agreed with this report at the exit conference and in subsequent written comments.

Attachment

cc: CFO - D. Anosike
IBOP - J. Kuo
COUN - P. Lee

Background

According to the Association of Certified Fraud Examiners, a ghost employee is defined as “[s]omeone on the payroll who doesn’t actually work for a victim company. Through the falsification of personnel or payroll records a fraudster causes paychecks to be generated to a ghost. The fraudster or an accomplice then converts these paychecks. The ghost employee may be a fictitious person or a real individual who simply doesn’t work for the victim employer.”¹

WMATA has mitigated the risk of adding fictitious (i.e. “ghost”) employees to the payroll system by separating access based on defined roles which provide segregation of duties in PeopleSoft. The hiring and payroll operations are split between the Office of Human Resources (HR) and the Chief Financial Officer (CFO). HR populates the payroll module with a new hire’s name, social security number, date of birth and address then the employee identification number is created (i.e., employee record) in PeopleSoft Human Capital Management (HCM) and is available to be queried by personnel in the CFO’s payroll group.

All new hires must go through New Employee Orientation (NEO) on their first day at WMATA. During NEO, the new hire’s identity is verified through the I-9² process. In addition, new employees complete their tax withholding forms and other personal data, such as insurance and beneficiaries.

While WMATA has payroll system controls in place that limit the potential for payroll fraud, there is an opportunity for WMATA management to further reduce the risk.

What is Required

- Office of Accounting Procedures Manual (dated January 31, 2013) – Section 2.1 - “[A]ll WMATA employees are required, by policy or Collective Bargaining Agreement (CBA) to have their net pay directly deposited into their financial institution or, if a financial institution is not available, to a Pay Card.”
- Official Employee Records - Policy Instruction (P/I) 7.3.1, Section 5.04 requires employees to maintain an updated address on file as their official record.

¹Source: <https://www.acfe.com/article.aspx?id=4294968370>

²Form I-9, officially the Employment Eligibility Verification, is a United States Citizenship and Immigration Services form. Mandated by the Immigration Reform and Control Act of 1986, it is used to verify the identity and legal authorization to work of all paid employees in the United States. All U.S. employers must ensure proper completion of Form I-9 for each individual they hire for employment in the United States.

What We Found

Policy on Direct Deposit – The Accounting Procedures Manual provides that direct deposit is required by policy or Collective Bargaining Agreement. While there is a resolution³ that implies that WMATA has mandated direct deposit as of July 1, 2006, the requirement is not included in a policy.

Policy on Official Employee Records (Address) – Seventeen employees are using a commercial mail receiving agency (CMRA), also known as a mail drop, as their official residence of record. A customer of a CMRA can receive mail and other deliverables at the street address of the CMRA rather than the customer's own street address.

Why this Occurred

WMATA requires direct deposit as a matter of practice. However, WMATA has not updated its HR policy to reflect this requirement. Further, WMATA has not developed guidelines to prevent the use of a CMRA as an official residence of record.

Why this is Important

Requiring all employees to setup direct deposit helps prevent payroll fraud and provides a more efficient and effective method for paying employees.

Employees whose personnel records listed a CMRA as an official residence of record could be an indicator of fictitious employees. Requiring residential addresses for employees' official record could limit the potential for payroll fraud and minimize difficulties in contacting employees and/or their families in emergency situations or responding to information needs in a timely manner. However, in certain cases using a CMRA may be appropriate.

Suggestions

We suggest the GM/CEO:

1. Update an existing HR policy to include the requirement of direct deposit. (Action: Chief of Internal Business Operations)

Note: This is a suggestion and does not require a corrective action plan and will not be part of the audit resolution process.

³Resolution of the Board of Directors – #2006-65, Presented and Adopted: November 16, 2006

Management Comments

WMATA management agreed with this report (see Appendix).

Objective, Scope and Methodology

Our objective was to determine the effectiveness of internal controls designed to prevent ghost employees.

The scope of the audit was all employees on record during calendar year 2016. To accomplish our audit objective, we:

1. Reviewed relevant documents, including WMATA policy instructions and office procedures;
2. Interviewed HR and Payroll personnel to obtain an understanding of the hiring processes and payroll processing functions;
3. Compared HR and Payroll databases to determine whether:
 - a) each employee had a uniquely identifiable number;
 - b) social security numbers were valid⁴;
 - c) multiple employees had payroll direct deposit to the same bank account; and
 - d) payroll payments were made to legitimate WMATA employees.
4. Reviewed employee's address to determine whether the address was a valid United States Postal Service (USPS) address and not a CMRA address.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards required that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

⁴ OIG does not have full access to the social security administration data matching program in order to perform a 100 percent social security number verification.

M E M O R A N D U M



SUBJECT: Draft OIG Audit: Internal Controls Over Creation of Ghost Employees DATE: July 27, 2017

FROM: CHRO – Tawnya Moore-McGee [REDACTED]

THRU: IBOP – John Kuo [REDACTED]

TO: GM/CEO – Paul Wiedefeld [REDACTED]

The Department of Human Resources (HR) acknowledges receipt of the draft OIG audit entitled *Internal Controls over Creation of Ghost Employees*.

As noted in the Agency comments and overall consensus, the Office of the Chief Financial Officer has confirmed that the direct deposit requirement will be added to the *Timekeeping Policy*. Therefore, HR will not issue a separate policy requiring direct deposit. Further, HR concurs with OIG's assessment that in certain cases using a CMRA may be appropriate and, as such, does not recommend making any policy or procedural changes regarding this matter.

cc: CFO – D. Anosike
COUN – P. Lee