



OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: March 17, 2004

TO: Inspector General *AK*

THRU: Thomas Cline *TCC*
Assistant Inspector General, Audits

THRU: Walter Opaska *WPO*
Director IS, Audits

FROM: Maureen Doherty *MSD*
Office of Inspector General

SUBJECT: Payroll Fraud Detection Survey

The Inspector General (IG) Act of 1978 requires IGs to provide leadership in preventing and detecting fraud and abuse at their agencies. As part of this program, we performed a survey to ensure that no Federal Communications Commission (FCC or Commission) employee was fraudulently using a social security number. The objectives of this survey were to: indicate if any FCC employee was utilizing an invalid Social Security Number (SSN), document any anomaly that arose while comparing SSNs to various databases, and identify areas where more audit work should be performed.

REASON FOR SELECTION

Increasing security issues facing other federal agencies in the past several years have justified a concern for fraudulent activity within the Office of Inspector General (OIG) of the FCC. No inquiry of this nature has been initiated by the Commission or the OIG in recent years. This survey was to take a preliminary look to determine if an audit of personal security of FCC employees was warranted.

BACKGROUND

With the passage of Statement on Auditing Standards (SAS) 99 by the Auditing Standards Board of AICPA in 2002, auditors were provided more guidance with respect to detecting material fraud. SAS 99 focuses on risk assessment and the need for auditors

to become more skeptical. SAS 99 states, "Auditors should not assume management is honestly reporting results... If someone wanted to perpetrate a fraud, how would it be done?"

Unpredictable audit tests should be a part of every auditor's tasks. The AICPA says, "Engagement teams should test areas, locations, and accounts that otherwise might not be tested. Those tests should be unpredictable and unexpected by the client."

Joseph Dervaes, Auditor for Special investigations in the Washington State Auditor's Office, outlined the most frequently used schemes for perpetrating fraud and who is most likely to do so. He identified the five following ways as the most common schemes: (1) ghost employees, (2) mid-month payroll draws not deducted from end-of-month payroll, (3) unauthorized employee pay, (4) COBRA program abuses; and (5) advance release of withheld funds.

Although every employee could be capable of committing a fraudulent payroll act, the most vulnerable are department timekeepers, department managers, and any payroll department employee or manager. These practices need to be periodically reviewed as roughly 80 to 85 percent of all FCC expenses are labor-related. As Dervaes states, "Ensuring that all payroll payments are valid and authorized helps to ensure the public's expectation that funds are spent wisely and for official public purposes. It also assures the public that government is accountable."

SCOPE OF SURVEY WORK PERFORMED

This project was conducted as a survey. A survey is preliminary audit work done before an audit and is not an audit conducted in accordance with Government Auditing Standards (i.e., GAO "Yellow Book" standards). The purpose of a survey is to gather general working information on important aspects of an entity, activity, or program, and to determine the nature and extent of any subsequent audit effort.

The purpose of this survey was to assess the probability and likelihood of an FCC* employee using an invalid Social Security Number (SSN). If at any point an anomaly was found the survey would stop, and further investigation into the anomaly would convene. At the conclusion of the survey a report would be sent to the Inspector General and a subsequent plan of action for the next steps to take would be submitted.

To begin the survey, a set of business rules was created to establish the exact form an SSN would need to have and what combinations of numbers would be deemed invalid. For example, no one field can be composed of entirely zeros and no area number can be in the 800s or 900s. After completion of the business rules, a copy of the personnel roster for pay period 24 was obtained. This roster is distributed by the Office of the Associate Managing Director, Human Resources Division. Since SSNs of every FCC employee are listed in the roster, it was used to create a file with the SSNs of all 2,043 FCC employees.

The next step was to match the employee listing of SSNs against the Death Master File (DMF). The DMF is a listing of deceased individuals that is updated both weekly and monthly. It includes Date of birth, Date of death, first and last name, zip code of last known residence, and zip code of lump sum payment.

We then used a program found on the internet to check each SSN. The Texas State Auditor's (SAO) program was chosen as the best validation tool. Prior to choosing this program, others were tested, and none were able to comply with the business rules previously established. The years 1969 and 1984 were identified as year of birth cut-off date and SSN issuance cut-off date, respectively. If these two conditions were not met, that individual's name was placed in an exceptions file.

The final method taken to establish validity was to compare the personnel listing for pay period 24 to the payroll listing for pay period 24. This comparison was done to verify that each name on the payroll listing was also on the personnel listing, and each name on personnel was on payroll. Any discrepancies resulting from the testing would be reported separately.

SUMMARY OF OBSERVATIONS

Death Master File

The General Accounting Office (GAO) ran the SSN file through the DMF. Every number was matched and no anomalies resulted. In addition, the examination did not produce any duplicates, blanks, or invalids (i.e.: three leading blanks). Each SSN was also individually verified to ensure a numeric digit count of exactly nine.

Texas State Auditor's Office Program

Forty-two names were ultimately placed on the exceptions file. Eventually, a more thorough assessment was taken of the file, and all but thirteen of the names were removed. These names remained because they were over the age of eighteen when they were issued an SSN.

Pay Period 24 Evaluation

Two employees were listed on payroll and not on personnel, in addition to four employees listed on personnel yet not on payroll. After conducting the appropriate meetings with employees in Human Resources Management, all six employees were cleared. There were then six employees who remained where payroll and personnel did not match up. Three sets of duplicate first and last names existed, with different middle initials. Each of the three similar names was listed twice on the personnel listing, as should have been done, yet only once on the payroll listing, where no middle initial was indicated. An inquiry was placed to both personnel and payroll concerning the issue. The supervisory system accountant reconciled the issue by providing gross and net salary figures for each of the six employees.

Survey Limitations

A problem that created a lack of validity in this survey was that the SAO program did not account for business and corporate Taxpayer Identification Numbers (TIN). This could be a significant finding, as TINs resemble SSNs by having the same number of digits in the same range as SSNs. However, they cannot be used by employees for payroll purposes.

FUTURE AUDIT COVERAGE

Because the FCC's largest expense is that of labor, the OIG should periodically compare a payroll list versus a personnel list. As was reported in this survey, anomalies appeared after taking the comparison. The OIG should at least once annually compare the two listings to ensure that no fraudulent activity is taking place.

The OIG should additionally consider the feasibility of implementing a database that would automatically do the comparison between the two listings. The Federal Financial System (FFS) and the personnel system should be one in the same so that no inconsistencies arise. Also, the OIG could investigate the feasibility of monitoring the FCC's payroll through an account at the National Finance Center (NFC).

Additionally, because so much of the work conducted at the FCC is contracted out to various companies, the SSNs of the contractors should be compared against the DMF. By doing so and concluding that the SSNs of every contractor were valid, the FCC would ensure a safer and more secure environment.

CONCLUSION

Based on the results of this survey, an audit is not warranted relating to payroll fraud detection. However, if the OIG continues to periodically compare payroll listings with personnel listings and findings result, the OIG should pursue an audit.

Although some discrepancies occurred in this survey, each one was reconciled in its entirety. The OIG should strongly pursue having a system in place that would automatically identify any anomalies and should continue to monitor the payroll process.