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## PAYROLL

# September 2018 Payroll Channel

Although there's no way to guarantee that employees won't commit payroll fraud, you can take measures to prevent it or catch it quickly. Set up controls to protect your company from payroll fraud and other kinds of small business fraud cases.

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## How to Avoid Payroll Fraud

*By Mike Kappel, CEO, Patriot Software*

Although there's no way to guarantee that employees won't commit payroll fraud, you can take measures to prevent it or catch it quickly. Set up controls to protect your company from payroll fraud and other kinds of small business fraud cases. Here are some things you should do to secure payroll at your business.

### 1. Establish checks and balances

If you pass along responsibilities to employees, make sure you don't entrust everything with one employee. Different staff should set up new hires, process payroll, and handle accounting. And, you should have more than one employee doing each task to make sure they are honest.

Keep an eye on employees who have access to account numbers and payroll checks. These employees could fabricate ghost employees and falsify wages. You especially need to pay attention if you only have one employee who handles payroll. Don't

allow payroll staff to generate their own paychecks. They might add overtime or falsify data. Run payroll for them or rotate responsibilities within a department.

## **2. Ask employees to report suspicious behavior**

The ACFE's Fraud in Small Business study (<https://bit.ly/2woXnOH>) found that whistleblowers are the most common and effective way that employers discover fraud in the workplace. Establish an anonymous method for tips and clear steps for reporting suspected fraud. Employees who report suspicious behavior may mitigate losses more quickly than if the fraud goes on undetected for years. You might not be able to see every detail that goes on in your business, but employees are most likely in a better position to spot payroll fraud red flags.

## **3. Conduct internal audits**

An internal audit is when someone working within your company checks your business's finances, operations, or management. You can conduct internal audits at random times to catch employees off guard. The audit looks at financial records to find where money is going, helping to find gaps in records. Twelve percent of small businesses detect fraud by conducting internal audits, according to the ACFE report.

## **4. Create a separate payroll account**

Keeping all your business funds in one bank account might be an invitation for fraud. A payroll account lets you separate your payroll funds from your general business funds. This way, you will only put enough money into the payroll account to cover employee wages and taxes, while limiting the amount of money that might be compromised in the case of payroll fraud. Using a payroll account also makes it easier to reconcile your bank statement and maintain accurate records. The more accurate your records, the easier it will be to catch fraud.

## **5. Make sure payroll tax deposits are being made**

Because an employee running payroll might be pocketing taxes, it's important that you verify that correct tax deposits are being made. Keep a separate copy of your PIN and password for the Electronic Federal Tax Payment System (EFTPS). EFTPS is the system used to pay taxes online. When you are enrolled in EFTPS, the IRS will automatically send you an EFTPS Inquiry Pin so you can monitor tax deposits.

Log in periodically to make sure that accurate, timely deposits are being made and also review tax filings to make sure your deposits add up. Knowing whether your

taxes are being deposited correctly can help you avoid IRS penalties that result from not depositing taxes. And, it can help you catch payroll schemes before your business loses too much money.

## 6. Do your due diligence before you hire

Obviously, no business owner intentionally hires employees with fraudulent behavior. Most candidates put their best foot forward during the hiring process, making it difficult to spot certain behaviors. But you need to do your due diligence before you extend a job offer. Take your time during the hiring process. Conduct multiple rounds of interviews and administer job-fit tests to get to know candidates. Make sure you do reference checks. Talk with the candidate's previous employers. Find out about any suspicious behavior or even past instances of payroll fraud. Do a thorough background check to see if the candidate has a criminal record. Require drug and alcohol screenings as well.

The more thorough you are in the hiring process, the more you will be able to avoid negligent claim cases. And hopefully, you will avoid future cases of payroll fraud or other types of small business fraud.

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What to Expect from a Nanny Payroll Provider. **The SurePayroll blog.**

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5 Time Tracking Compliance Issues and How to Avoid Them. **PrimePay blog.**

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How to Manage a Cafeteria Plan. **Paydays Made Easy blog.**

<https://bit.ly/2PLL3k5>

Preparing Your Business for a Payroll Tax Audit. **Cirrus Payroll blog.**

<https://bit.ly/2BX17gg>

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<https://bit.ly/2PL8aLG>

# Top Payroll News:

**California Considers Ban on Mandatory Arbitration.** The #MeToo-driven bill would ban California employers from requiring workers to sign arbitration agreements.

[www.cpapracticeadvisor.com/12426414](http://www.cpapracticeadvisor.com/12426414)

**High Income Wage Earners Need to Review Their W-4.** The Tax Cuts and Jobs Act made major changes to deductions, exemptions, the CTC, tax rates and brackets.

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**Xero and Gusto Partner for Payroll.** New partnership that will allow Xero users to have integrated access to Gusto's full-service payroll solution.

[www.cpapracticeadvisor.com/12425145](http://www.cpapracticeadvisor.com/12425145)

**Missouri Voters Strike Down "Right to Work" Law.** Unions are celebrating Missouri voters' decision in August to strike down a state "right-to-work" law.

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**Retailers Already Competing for Seasonal Workers.** Major retailers are already posting help-wanted ads for their busy season, weeks or even months earlier than usual.

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