Case Study

Ghost employees helped a fraudster embezzle more than $100,000 from a not-for-profit organization. How could a company not notice they were paying employees that didn’t exist? The answer was found by talking with the perpetrator—a 50 year-old, female high school graduate who worked in the organization’s accounting department.

The fraudster created several fictitious seasonal employees in the company’s payroll system. Each pay period, she would pay them along with the rest of the employees, but would keep their paychecks and cash them at a local check-cashing store. Her scheme went undetected for three and a half years because the company lacked sufficient controls to prevent and detect this type of fraud. Specifically, no other employee was involved in the payroll process; the fraudster had sole authority for adding and removing employees from the payroll and for running and distributing paychecks each pay period. Additionally, the company did not have a reporting mechanism for other employees to report suspicious activities or an internal audit department to review the operations and finances for signs something was amiss. The employee never took vacation, and she came into work sick rather than take time off.

The scheme unraveled when the fraudster was involved in a very serious traffic accident that left her unable to work for more than a month. The employee who filled in during her absence discovered that the number of employees on the payroll distribution list did not match the number of employees that were currently working for the company and alerted company management. Management referred the case to law enforcement authorities, but the fraudster had already stolen more than $100,000. When confronted, the fraudster confessed and provided the details of her crime. She pleaded guilty to the criminal charges and was sentenced to 12 months’ probation and fined $25,000. She was not sued in civil court. The company recovered less than 25 percent of the embezzled funds, and they have no plans to attempt to recover more of their losses.