

## **GHOST EMPLOYEES**

**By Thomas A. Buckhoff, Ph.D., CPA, CFE**

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For 20 years, American Inventors Corporation (AIC) promised aspiring inventors help in bringing their products to market—for a fee. AIC offered two basic services: (1) a ‘feasibility report’ that cost between \$250 and \$495 and which purportedly evaluated the patentability and marketability of the product or idea; and (2) a ‘representation agreement’ that cost between \$5,490 and \$11,990 under which AIC promised to prepare and file a patent application, and to promote the inventor’s product or idea in an effort to secure a licensing agreement for the inventor. Unfortunately, AIC did not deliver as promised and defrauded over 34,000 victims out of \$60 million. Specifically, the government charged that inventors submitted their ideas to AIC to obtain an objective appraisal of the merits of their ideas. AIC then falsely misled the inventors about the merits of their ideas through mailings and sales presentations called “inside sales pitches” and “set-up pitches.” The fraud scheme culminated with face-to-face meetings between AIC salespeople and the inventors, called “outside sales pitches,” during which the salespeople made false statements about how much money the companies believed that inventors could make. Consequently, inventors paid thousands of dollars in fees, usually between \$200 and \$10,000, for worthless patenting and marketing services. Ronald Boulerice, owner and president of AIC, pleaded guilty to conspiracy to commit mail fraud, mail fraud, money laundering, and filing false tax returns. Boulerice was sentenced to eight years in prison, a fine of \$7.3 million, and restitution of \$2.3 million. Ultimately, more than 15 people pleaded guilty or were convicted of mail fraud or tax fraud charges stemming from AIC’s business practices, including Ronald Boulerice’s daughter, Lisa Boulerice. Lisa was on the AIC payroll for five years, even though she never provided any kind of service to the company. She was paid over \$175,000 in wages during that time period and AIC paid over \$60,000 for the rent and utilities of her New York City apartment. Lisa Boulerice was convicted of two counts of filing false tax returns and was sentenced to nine months of home detention.

### ***The Problem***

When fraud emanates from the top of the organization, it usually spreads throughout the organization like a cancer. Once the lower ranks discover that those above them are perpetrating fraud, many of them decide to perpetrate their own schemes as well. For example, while AIC

top management was busy bilking unsuspecting inventors out of millions, Lisa Boulerice was busy duping AIC out of over \$235,000 in fraudulent disbursements.

Lisa Boulerice's fraud scheme is called a ghost employee scheme, whereby the fraudster draws a paycheck from the victim company when s/he does not actually work for the company. According to the 2004 National Fraud Survey, ghost employee schemes cause victim companies median losses of about \$275,000. Ghost employee schemes are typically perpetrated by those who have hiring authority or who have access to the payroll records. To effectively perpetrate this scheme, either the fraudster or an accomplice must ensure that the following steps are completed:

- Add the ghost to the payroll
- Falsify timekeeping and wage rate or salary information
- Issue paycheck
- Deliver paycheck

Case in point: 'Mike' was responsible for hiring and scheduling janitorial work. He added more than 80 ghost employees—who were real people working for other companies—to the payroll. Mike falsified time sheets for the 'ghosts' and approved them. He then delivered the resulting paychecks and split the proceeds with his accomplices.

### ***Prevention and Detection***

Implementing the following actions will help minimize losses due to ghost employee schemes:

- Ensure that payroll preparation, disbursement and distribution functions are performed by different people. This makes it difficult for one person acting alone to perpetrate a ghost employee scheme.
- Investigate any employees who have little, if anything, deducted from their paychecks. Ghost employees typically do not elect to participate in employer-sponsored health insurance or retirement plans.
- Examine payroll checks with dual endorsements, which might indicate that the fraudster is forging the signature of a former employee. The fraudster—I know this sounds like a stupid criminal story but it happens quite often—then dual endorses the check and deposits it into his or her own personal bank account.
- Use direct deposits. This method can minimize payroll fraud by eliminating paper paychecks and the possibility of alterations and forged endorsements, although it doesn't prevent the diversion of deposits into unauthorized accounts.

- Search payroll records for the presence of duplicate names, addresses, direct deposit bank account numbers, and Social Security numbers.
- Periodically, and on a surprise basis, hand-deliver paychecks to employees and require photo identification. Any remaining paychecks might indicate ghost employees.
- Examine any budget variations in payroll expense. Higher-than-budgeted labor costs might indicate ghost employees.
- Investigate any employees whose personnel files contain less than the expected amount of documentation. Ghost employees often have no personnel files or have very little documentation in them.

An effective deterrent to fraud is to set the appropriate “tone at the top.” Top managers serve as role models for the rest of the organization. In both word and deed they should communicate that fraud and other forms of impropriety will not be tolerated within the organization. They should then take actions—such as those recommended above—that minimize opportunities to commit fraud and maximize the probability that fraudulent acts will be discovered. Such actions create a “perception of detection,” which is the most effective deterrent to fraudulent activity. Since even good internal controls can be circumvented by dishonest employees, the company should engage a certified fraud examiner to annually examine payroll expenditures along with all of the supporting documentation, looking for anomalies.