An X-Ray of Accounting Crimes in Nigerian Tertiary Educational Institutions: Focus on Payroll Section

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Abstract

Accounting crimes in Nigeria’s tertiary educational institutions have continued to be a threat to the development and smooth operations of the institutions. These crimes which have been found to be more pronounced in the payroll sections of Bursary departments appear to have defied all known solutions. The problems resulting from these crimes have continued to plague our educational Institutions and Society. Among the problems are unemployment, retarded development, poor infrastructure, poor planning and low quality of educational products. Edward Nogel recommended the awareness of the red flags in detecting and preventing common payroll frauds in educational tertiary institutions. This paper critically examines the principles of Nogel’s checks and balances mechanism with a view to determining its effectiveness or otherwise in the prevention and control of financial crimes in Nigeria’s tertiary educational institution. Survey of some of the tertiary institutions in Anambra State reveals that Nogel’s warning signals are not applied in the control of crimes in the institutions. It is the view of this paper that some aspects of Nogel’s principles should be more seriously emphasized in order to create effective checks and balances in our tertiary educational institutions and address the social and economic problems so generated.

Keywords: Accounting, Financial Crimes, Tertiary Educational Institutions, Payroll Section

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**Background to the Study**

Crimes and corruption in Nigeria have remained matters for open debate. This has created a bad image for the country internationally. For instance, in its 2012, annual report, Transparency International ranked Nigeria among countries of the world with a high perceived level of corruption (Transparency International 2012).

In a similar report, United States Department of International Affairs (2012) also reported that the massive corruption in Nigeria is affecting every sector of the economy and doubted the efforts of Nigerian Government in fighting economic and financial crimes. Crimes and corruption carried out in payroll units of both public and private tertiary educational institutions have reached the extent that effective control and management of staff payment now constitute a problem. It is the major responsibilities of all educational stake holders and the chief executives of the institutions to see to the control of the payroll unit of their Institutions. It is in the light of these that this paper tries to address the problems emanating from the security challenges caused by these financial crimes and the tasks given to anti-corruption agencies.

**Statement of Problem**

Accounting crimes in Nigeria’s tertiary educational institutions more especially in the payroll unit of Bursary departments have continued to be a threat to the development and smooth operations of the institutions. Government have expressed considerable worry about the poor state of the economy, poor growth and development as well as diversion of public funds, in all sectors especially in tertiary educational institutions due to the presence of hydra-headed monster called crimes/corruption. The consequences of financial crimes are grave and need to be controlled. These crimes which have been found to be more pronounced in the payroll unit of bursary department appear to have defied all known solutions. The situation has continued to generate the problem of unemployment, retarded development, poor infrastructure, poor planning and low quality of educational products. All these informed the desire to X-ray the accounting crimes in Nigeria’s tertiary educational institutions as few known studies on the subject were done outside Nigerian environment.

**Review of Related Literature**

Many experts have done some work on payroll crimes/corruptions in Tertiary Educational Institutions. Edward (2010), recommended to be aware of the red flags that increase risk in common payroll units. Again, employees should not have the ability to make changes to the historical payroll periods that have already been closed as this can lead to unauthorized changes to be made to previously approved payroll transactions.

Walter (1965), fraud/crimes can be categorized as:

1. Internal crime/fraud
2. External crime/fraud

Payroll fraud is one of the internal crimes. Internal frauds are by the managements and employees. Only internal employees and management may record false wages, benefits or false expense reimbursement claims.
Steven and Thomas (2006) critically highlighted the use of “Red flag” and the meanings of “Red flags” in the payroll units of Bursary department in tertiary educational institutions. They also highlighted the employees “Red flags” and the management “Red flags” this also is internal type of fraud as Walter (1965) mentioned in his view of crime/fraud. Albrecht (1996) categorized symptoms of fraud into six viz: Behavioral symptoms; life style; Accounting anomalies; internal controls symptoms; Analytical anomalies; and Tips and complaints.

Some of the financial crimes in the Nigerian tertiary institutions include:-
1. Falsification and forgery of receipts
2. Forgery of signatures
3. Collection of official payments without issuing official receipts.
4. Extorting money from students before rendering official services and many other such crimes.

Payroll is a section is a unit in the Bursary departments of any private or public tertiary educational institutions that arranges for the payment of staff.

It is in the pay roll section that the list of the staff and the amount of money they should earn for as salary or wage is compiled and paid. That is why Oxford Advanced Learner’s Dictionary (1995) finds the payroll as a “list of people employed by a company and the amount of money to be paid to each of them”.

**Accounting Crimes in Payroll**

According to Walter (1965), this can be seen as the distortion or manipulation of figures and names in the payroll system or book sheets. This can take the form of:

1. **Ghost names**: This is the process by which the names of non-existing workers appear in the payroll list. Yet people are collecting money on their behalf, mainly the top management and some employees that are in charge of payroll section, thereby creating unemployment.
2. **Unauthorized increment of workers salaries**: This type of crime is associated with the top officers, managements and employees. This type of increments does not get to the workers they are rather taken by either one person or some selected persons in the organization.
3. **Misappropriation** of Sums deducted from wages and salaries by these top officers or by the Chief executives and name it anything they many wish and embezzle it.
4. **Unclaimed wages misappropriation**: This happen where unclaimed money is claimed by either management of by the top executives; or even by one or some of the employees, all mentioned above are internally crime.
5. **Setting up fictitious account**: Fraudsters create some ghost employee on the payroll book sheet for them to collect their wages at due time.

**Types of Payroll Frauds**

The payroll unit is one of the areas of the Bursary department that are easily get proms to crimes due to the frequency of transactions that happen there through out the year or months. Fraudsters most often find it easy to add a “ghost” or fictitious employee to the payroll book sheets, record false wages, false benefits or false expenses and reimbursement.
claims. Payroll units may be exposed to great risk of types of crimes, for controls and preventions are not functioning effectively.

1. **Ghost Workers (fictitious people on the payroll):** Most Tertiary Educational Institutions have employees at a point that number of employees will be so large that even the management, may not know the employees by sight or by names, or even may not know what many of them are doing. These encourage ghost workers by the top management or from the employees themselves. A Ghost is an invented employee being added to the already employed numbers in the payroll. By inserting ghosts into the payroll system, the ghost will be paid but his pay will be collected by the perpetrators.

2. **False claims** (Falsification of entitlements) false claims involve false manipulations, including personal expenses claimed, duplicating expenses and advances being made.

3. **Making and collecting payments:** The more automated the payroll system is, the higher the risk of this type of fraud. Once it has been set up in the system, collecting cash is easy for the perpetrators as it is untraceable.

4. **Falsifying time sheets:** time sheets are falsified in order to increase the number of hours worked. This can be done by the fraudsters by clocking in and out while the person involved is not available that are physically adjusting the time sheets.

5. **Falsifying the type of work done:** This can be simply done by the perpetrators more especially when they think that they are doing the least job, they will falsify the type of work done in order to be paid a better wage.

6. **Falsifying qualifications:** Qualifications may be falsified to be place on a higher wage rate. Some perpetrators falsify their qualifications so that they will be placed on higher salaries.

7. **False expense reimbursement crimes:** Expenses claimed without reconciliation between the advances and the expenses. False expense reimbursement crime involves a variety of manipulations inflated, false and duplicating expenses and advances being made.

8. **Factors contributing to payroll crime:** Opportunity is generally provided through weaknesses in the internal controls, for example:

9. Inadequate or no supervision and review
10. Inadequate or no separation of duties
11. Poor internal controls
12. Managements override of internal controls
13. Inadequate or no management approval
14. Collusion between employees
15. Inadequate or no system controls
16. Collusion between employees and third parties.

For Maduagwe, (1996), Ubeku (1991) these factors may include the following:

1. The nature of Nigerians political economy.
2. The weak institutions of government and dysfunctional legal system.
3. When employees are spread over a number of separate geographical locations.
4. Where the payroll system is centrally controlled.
5. Where the officers authorizing wages payments will not recognize the ghost’s name in the payroll list.
6. Where the authorizing officer is the fraudster.
7. Where the country also has a culture of affluent and ostentatious living, that expects much from rich men, extended family pressures.
8. Over staying in office.
9. Most of Nigeria leaders are setting bad example of self enrichment or ambiguity over public ethics thereby promoting the lower level officials and members of the public into corrupt practices.
10. Erosion of social values and morality etc.
11. Inadequate or no recognition of “Red Flags” in payroll units.

Payroll “Red Flag” what is a “Red Flag”?
A red flag is a set of circumstances that are unusual in nature or vary from the normal activity. It is a signal that something is out of the ordinary and may need to be investigated further. Red flags do not indicate guilt or innocence but provide possible warning signs of crime. Being able to recognize red flag is necessary for any employee working in the public sector where the potential for fraud to occur exists. Being aware of red flags is only step one, once a red flag is identified, you must take action to determine its effect. Just keep in mind, do not ignore a red flag.

Evaluating the red flag may be accomplished by financial analysis, observation or by any other technique that tests an apparent weakness. Once the analysis is complete it is time to move on to correct the situation. The studies of payroll crime cases consistently shows that red flags were present, but were either not recognized or were recognized but not acted upon by anyone. Once a red flag has been noted, someone should take action to investigate the situation and determine if a fraud/crime has been committed.

What is a “Red flag” in payroll? Red flags are that which shows up in payroll, which is generally worthy of looking into. Although payroll is usually an automated function, it is a vulnerable area especially collusion is involved. Red flags in payroll are as follows:
1. Inconsistent Overtime hours for a cost center.
2. Employees with duplicate social security numbers names, and addresses.
3. Budget variations for payroll by cost center.
4. Overtime charged during a slack period.
5. Employee with few or no payroll deductions.
6. Overtime charged for employees who normally would not have overtime wages.

Employee and Management “Red Flags”
A. Employee Red Flags:
1. Employee lifestyle changes: Expensive cars, jewelry, homes, clothes etc.
2. Signification of personal debt and credit problems.
3. Behavioral changes: These may be an indication of drugs, alcohol, gambling, or just fear of losing the job.
4. High employee turnover, especially in those areas which are more vulnerable to fraud.
5. Refusal to take vacation or sick leave.
6. Lack of segregation of duties in the vulnerable area.

B. Management Red Flags:
   1. Reluctance to provide information to auditors.
   2. Managers engage in frequent disputes with auditors.
   3. Management decisions are dominated by an individual or small group.
   4. Managers display significant disrespect for regulatory bodies.
   5. There is a weak internal control environment.
   6. Accounting personnel are lax of inexperienced in their duties.
   7. Decentralization without adequate monitoring.
   8. Excessive number of checking accounts.
   9. Frequent changes in banking accounts.
   10. Frequent changes in external auditors.
   11. Company assets sold under market value.
   12. Significant downsizing in a healthy market.
   13. Continuous rollover at loans.

10 Red flags of Payroll Fraud (posted on April 1, 2015 by Arastl)
   1. Blank social security numbers for employees on the payroll.
   2. More than one employee using the same bank account number for direct deposit, social security number or address.
   3. Employees with no deductions for payroll taxes or benefits.
   4. An employee who shares an address, telephone number or bank account number with an accounts payable vendor.
   5. An employee who is on the payroll but not on the company’s employee list.
   6. Duplicate pay checks.
   7. A terminated employee who is still on the payroll list.
   8. Unusually high overtime pay.
   9. An employee who has been paid for working more than 24 hours in one day.
   10. Employees on the payroll register before their start date or after their termination date. www.avast.com.

Common payroll Fraud schemes include:
   1. Ghost employees: a person not employed by the company who is on the payroll.
   2. Falsified Time: a company pays an employee based on falsified hours or rates.
   3. Commission Fraud: the amount of sales made or the rate of commission is fraudulently inflated.

Categories of Fraud Symptoms
   1. Behavioral Symptoms
   2. Lifestyle
   3. Accounting anomalies
   4. Internal controls symptoms
   5. Analytical anomalies
   6. Tips and complaints.
The consequences of payroll crimes on the society:
Payroll crimes are of grave consequences to the society at large and these include:

1. **Unemployment**: Unemployment will be at its highest level when ghost names fill up the places where real people would have been. The gap results in massive unemployment.

2. **Un-equal spreading of Financial Wealth**: there will be a widening gap between the rich and the poor. Some people (perpetrators) will be richer than others, thereby discouraging the culture of hard work; and this leads to moral decadence and decaying social values.

3. It gives rise to increased rate of crimes and violence, social crimes, ethnic milito, civil agitation and unrest.

4. It gives negative image for the country and discourages foreign investments.

5. It also gives rise to poverty, hunger, illiteracy and hardship.

6. Negligent of “Red flag” will increase crimes in the payroll unit in Bursary department of Tertiary Educational Institutions.

Payroll Crimes Preventions
“Red flags” are those warning signs that indicate that there is danger ahead, which people should recognized in other to avoid going into it. If you had only recognized the warning signs, that loss may not have occurred or be substantially reduced. Fraud starts small and just gets bigger and bigger, until it becomes noticeably different or unusual.

“Prevention is better than Cure” Although payroll crimes will never be completely eliminated, it can be reduced by having effective checks and balances. Fraud prevention plans are regarded as one of the key instruments in preventing crimes and creating a culture of accountability within the organization. Payroll crimes prevention can be achieved by ensuring that:

1. No one in the institutions is exempted from controlling and preventing crimes in payroll more importantly those workers in the payroll unit.
2. Internal control check and a well-written policies are very important
3. Employees should be providing periodic “Red flags” awareness training, especially those staff in positions of authority and those entrusted to the system.
4. Making cash payments to employees is avoided.
5. A non-payroll supervisor approves payments to employees on time to time basis.
6. Performance reviews occur for all persons that are listed on the payroll register.
7. There is a firm and assurance internal control system.
8. A person who creates payroll document should not be the same person to approve payroll documents and vice a visa!
9. Employees should not have access to make changes to the original payroll document that have already been finished with, as it can lead to unauthorized changes in the previously approved payroll transactions.
10. There should be a timely, independent review of exception reports regarding changes made in payroll documents or transactions.
11. Duties should always be separated from individuals responsible for the submission and approval of time sheets and the person who analysis’s the time to time fluctuations in payroll expense, for this is a critical mitigation strategy as many fraudulent acts involved.

12. Someone in a trusted position, preferably at arms length from payroll should review the exception reports generated internally or provided by the third-party payroll provider, instead, it should be rotated and ensure there is a proper trail for all payroll transactions, such as suitable invoices, receipts and cheques to enhance the tracing and recovery.

The way out of Payroll Crimes

However, do not underestimate the effectiveness of empowering employee with the knowledge of what are the red flags of fraud more especially in the payroll units and how to spot them. Even where there is a cost involved in establishing the controls or upgrading existing ones, organizations should not hesitate to pay it. It is invariably a lot less costly to prevent a large fraud in the first place than to fix the damages that invariably follow a fraud.

Like Edward Nagiel (2010) emphasis on the detecting and preventing common payroll fraud by being aware of the red flags that increase the risk at crime:

1. All expenses should only be reimbursed if supported by original receipts and have complied with the institutions expense reimbursement policy.

2. There should be frequent reconciliation between advances paid and expenses claimed to ensure fairness, dealings, more especially when there is a significant gap between the date of advance made and the date of the expense reimbursement.

3. Anti crime polices are to be effectively communicate to the employee their obligations and crimes to institutions.

4. Payroll systems must be redesigned with their user name and pass word which only those authorized will know and be using.

5. Web-pages that have security to access will be made available for employee self service functionality.

6. Another suggested solution is of leave past employees on the system after they have left, and redirect their salaries/wages payment.

Ezeani, (2012) Suggested that families, schools among agents of socializations should emphasize the values of integrity of life and dedication to the common good among other values they inculcate including the leadership.

1. There should be an emergency task to eradicate crimes from our body policy via assessing the prospects challenges, revolutionizing, sensitizing, mobilizing and educating the masses on the maxim “good name is better than silver and gold”.

2. There is also needs for zero tolerance for crime/corruption, need to carry out various sensitization exercise to ensure that government officials are aware of the need to check mate corruption.

Conclusion

Accounting Crimes in Nigeria’s Tertiary Educational Institution which have been found to be more pronounced in the payroll unit of the Bursary department appeared to have defied all known solutions. Problems like unemployment, poor infrastructure, low quality of
education products, retarded development etc following the Edward Nogel’s emphasis on the awareness of the “red flags” in detecting and prevention of common payroll’s crimes in tertiary educational institutions. It was critically examines the principles of Nogel’s checks and balances mechanism with a view to determining it’s effectiveness in the prevention and control of financial crimes in Nigeria’s Tertiary Education Institution.

It is viewed that some aspects like awareness of “red flags” principles should be more and seriously emphasized and introduced it where they are not present; in order to create effective checks and balances in our Tertiary Educational Institutions and it will help to address the social and economic problems in our society.

Training should also be giving to the payroll workers about the dangers of “Red flags” and the consequences at been involved or not able to notice it. Adequate supervision and review, adequate separation of duties and adequate system controls should be more taken than before in our institutions. Management and our top officials from time to time should be taken their vacation or leave.

**Recommendations**

Nogel’s perception of red flags seems to be strange to the public particularly the staff and officials of the Bursary departments of tertiary educational institutions. I recommend that:-

1. Establishment of this Edward Nogel’s red flags in our tertiary educational institutions should help to reduce the rate of accounting crimes in our tertiary educational institutions.
2. It is recommended that all management staff of the bursary department especially the payroll staff should be enlightened on these Nogel’s warning signal in “red flags”
3. Management and top officials of the tertiary institutions should strictly apply these warning signals.
References


