

**PLEASE READ CAREFULLY!!!**

**Overview:**

Given that first year associates are required to exhibit a certain level of analytical skills, the case has been developed to test the students ability to use Microsoft excel to analyse patterns and draw relationships.

The “Events Timeline” has been designed to get students thinking of how information gathered during interviews help in SOLVING THE PUZZLE!!

**Research:**

The case requires the students to do a certain level of research through the use of basic internet search engines.

**Collaboration:**

While collaborating with classmates is very much encouraged, the final deliverable should reflect the student’s personal work product.

**Useful Information Provided by Zeus Research Department:**

Year	Employer Social Security Contribution	Employer Contribution for Medicare	Social Security Earnings Limit
2008	6.20%	1.45%	\$102,000
2009	6.20%	1.45%	\$106,800
2010	6.20%	1.45%	\$106,800

**Summary of Findings:**

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## PAYROLL FRAUD CASE

### Company Overview

Java Golf Club, Inc. (“Java” or “the Company”), based in Silver Spring, Maryland is a membership only golf club that caters to high net-worth individuals and corporate clients seeking an environment that promotes social and high level professional networking. Java was founded in 1999 by Mark Silverman (the current Chief Executive Officer) and has 20 employees that operate out of the Silver Spring office.

### Scenario

You are a Partner at Zeus LLP (Zeus), a boutique forensic accounting firm located in Washington DC. One day, you received a call from your long-time friend Mark Silverman, who requested a meeting with you on the following day, regarding an alleged payroll fraud committed by one of his employees, Emily Moore.

You arrived at Java’s office on time and during the informational interview session with Mark and Catherine Doe (COO), you learned the following:

Date	Events Timeline
January 1, 2008	Appointed Emily Moore as the Human Resources Director. The job description of the Human Resources Director included processing of bi-weekly payroll that was administered under contract by Bluebird Payroll, Inc. (“Bluebird”)
June 11, 2008	The company approved a “Payroll Advance” program that will give employees a maximum of their bi-weekly salary as a pay advance. The entire amount advanced to the employees will be deducted from their next pay check.
June 14, 2008	Paula Abnorm applied and was approved for a pay advance. Refer to “ <b>Pay Advance 1</b> ” [Appendix 1] for more details.
July, 24, 2008	Edward Thompson sent out a general email announcing his purchase of a brand new Mercedes S550. He has offered to bring in drinks the next day to celebrate the purchase. The value of the car is \$150,000.
January 24, 2009	Kane Powers applied and was approved for a pay advance. Refer to “ <b>Pay Advance 2</b> ” [Appendix 1] for more details.
April 7, 2009	There was an office rumor that Kane Powers and Emily Moore were dating. Relationships in the office were allowed as long as the two individuals involved were not working in the same department.
January 1, 2010	John Smith was hired as the Director of Finance and Administration. Smith’s starting salary was \$120,079.23.
January 13, 2010	One of Smith’s duties was to ensure that all transactions were appropriately entered into the accounting software used by Java. On this day, Smith requested that Moore provide him with the “ <b>Master Payroll Schedule</b> ” [Appendix 2], which was a detailed list of all employees bi-weekly wage rates summarized by pay periods. Smith’s request was denied by Moore on the grounds that it was a confidential Human Resources document.
August 12, 2010	While performing a review of the payroll journal entries, Smith noticed that the 11-Aug-2010 payroll was higher than the 28-Jul-2010 payroll. Smith immediately told Moore of the issue and the need for both of them to call Bluebird.
August 13, 2010	Moore told Smith that there was no need to call Bluebird as the difference was as a result of a pay advance. Refer to “ <b>Pay Advance 3</b> ” [Appendix 1] for more details. Smith found this answer satisfactory and considered the investigation closed.

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Case No. 2-2**

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January 3, 2011	Smith noted a similar discrepancy (RE: 12-Aug-2010) between the 15-Dec-2010 and 29-Dec-2010 pay periods. This time Smith escalated the issue to Doe and narrated to her the 12-Aug-2010 occurrence. They both immediately requested that Bluebird fax them a copy of the 2008 - 2010 Employee W-2s. Refer to “ <b>Bluebird W-2s</b> ” for more details.
	The W-2 statements revealed that Moore had been over-paying herself. Both Silverman and Doe immediately confronted her about the situation. She was immediately fired.
January 4, 2011	All employees were notified that Moore no longer worked for the company.

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### Payroll Processing

You requested that Doe walk you through the payroll process. Doe provides you with the brief summary below;

1. Payroll was exclusively processed by Moore on a bi-weekly basis. She maintained a “Master Payroll Schedule” that captured all employee time and salary information.
2. The captured data was processed through Bluebird who then remits payments to the employee designated account via direct deposit.

### Engagement

Joe Silverman has requested that Zeus perform an investigation that will:

1. Quantify how much was misappropriated by Moore.
2. Determine if anyone else benefitted from the scheme (include name and amount).
3. Determine whose payroll records were manipulated to conceal the fraud.
4. Discuss in 3-4 lines the implication of Java’s contribution [Employer Contribution] to the Social Security and Medicare tax fund. You can find additional information by visiting the Social Security Administration website [www.ssa.gov](http://www.ssa.gov) and reviewing the table provided to you by the Research team.

Silverman has to explain the results of your investigation to his Board during their next meeting. He has requested that you provide him with a 1-2 page “Summary of Findings” report and the Supporting Schedules. The Supporting Schedules should not exceed two pages. The deliverable is due prior to the next Board meeting.

### Document/Information Request

Request	Response
Employee Salary Information	<b>DOE:</b> Moore was in charge of maintaining employee salary details. We did not have a formalized process for filing this information. We have attached the salary details as of December 31, 2007. They should be pretty accurate. Everyone normally gets a 4% Cost of Living Allowance (COLA) increase on New Year’s day. [ <b>Appendix 1</b> ]
Master Payroll Schedule	<b>SMITH:</b> See attached schedule from January 2008 to December 2010. Kindly note that these documents were <b>maintained by Moore</b> . The summary totals from this spreadsheet served as source data for payroll journal entries. [ <b>Appendix 2</b> ]
Employee Activities	<ol style="list-style-type: none"><li>1. Meaghan Flanagan left the Company on December 31, 2010</li><li>2. Lindsey Cox last day at the Company was June 2, 2010. Lindsey received a \$6,500 vacation payout.</li></ol>

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Others

On a side note, Silverman tells you that Moore took frequent weekend trip to Europe to socialize with her friends.

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