



# Payroll Fraud Checklist



Payroll might seem like a routine back-office function, but it's one of the easiest places for fraud to hide—especially in small businesses with limited oversight.

If you're a small business owner juggling operations, sales, and HR, it's critical to understand how payroll fraud works, how to spot it, and most importantly, how to prevent it. The financial impact is only part of the problem—reputational damage and internal distrust can take even longer to recover from. Use this checklist monthly or quarterly to keep your payroll secure.

## Payroll Fraud Warning Signs

- Inconsistent payroll expenses month-to-month
- Employees receiving paychecks post-termination
- Multiple employees using the same bank account
- Resistance to audits or software changes
- Sudden increases in overtime hours

## Action Steps to Prevent Payroll Fraud

- Separate payroll duties between different team members
- Outsource payroll to a verified third party
- Conduct surprise audits and spot-check reports
- Use payroll software with built-in fraud detection
- Revoke access for terminated employees immediately
- Require managerial approval for overtime or rate changes

## Team & Culture

- Train employees on fraud prevention and reporting
- Create a confidential way to report suspicious activity
- Include fraud awareness in onboarding and ongoing HR training

## Employee Records & Pay Verification

- Cross-check active employee list with department heads
- Verify pay rates match offer letters or contracts
- Confirm all direct deposits are going to legitimate, unique accounts
- Match timesheets to project/task records

## System Security

- Restrict payroll software access to only essential personnel
- Require two-factor authentication for login
- Schedule automatic logouts after inactivity
- Limit admin permissions—use “view only” where possible

## Hiring & Termination Protocol

- Have a checklist for onboarding, including manager verification
- Use government ID verification for all new hires
- Revoke system and software access immediately after termination
- Send termination confirmation emails to payroll for tracking

## Audit & Review

- Conduct random payroll audits at least twice a year
- Review overtime approvals for anomalies
- Run reports on pay rate changes and manual check entries
- Schedule quarterly meetings with your bookkeeper or accountant

The Association of Certified Fraud Examiners (ACFE) reports that businesses with fewer than 100 employees are the most common victims of fraud, with nearly one in three experiencing some form of it.

