

[Date]

[To: Name of Management/Board]

[Company Name]

[Address]

Subject: Management Letter regarding Payroll and Timekeeping Vulnerabilities

Dear [Name],

In connection with our recent internal control review, we have identified several vulnerabilities within the organization's payroll processing and timekeeping procedures. We recommend addressing the following areas to mitigate the risk of financial loss or regulatory non-compliance.

1. Segregation of Duties

We noted that the same individual is responsible for adding new employees to the payroll system, approving timecards, and executing the final payment run. This lack of segregation increases the risk of unauthorized salary adjustments or the creation of "ghost employees."

2. Timekeeping and Attendance Monitoring

Currently, timekeeping records are maintained manually or lack secondary supervisor authentication. This vulnerability allows for potential "buddy punching" or the reporting of hours not actually worked. We recommend transitioning to a biometric or digital timestamp system with mandatory supervisor sign-offs.

3. Master File Maintenance

There is no periodic independent review of changes made to the employee master file (e.g., changes to bank accounts, pay rates, or tax withholdings). All changes to sensitive payroll data should be logged and verified by a person independent of the payroll entry process.

4. Overtime Authorization

Our review indicated that overtime is frequently paid without prior written authorization. Establishing a formal pre-approval process for overtime will assist in budget management and prevent the inflation of payroll expenses.

5. Reconciliations

We observed that payroll bank reconciliations are not performed in a timely manner. Delays in reconciliation can prevent the early detection of duplicate payments or fraudulent disbursements.

We are available to discuss these findings in further detail and to assist in developing an implementation plan for these controls.

Sincerely,

[Your Name/Signature]
[Your Title/Organization]