

**Date:** [Insert Date]

**To:** [Insert Name of Management/Board of Directors]

**From:** [Insert Name/Department]

**Subject:** Management Letter Regarding Ghost Employee Risks in Payroll Processing

Dear [Insert Name],

During our recent review of the organization's internal controls over payroll processing, we identified specific areas of risk related to "ghost employees"-individuals recorded on the payroll system who do not work for the company but for whom salary payments are being issued.

**Identified Risks:**

- Lack of integration between Human Resources (HR) records and Payroll processing systems.
- Weaknesses in the manual entry of new hires and the removal of terminated employees.
- Insufficient segregation of duties between personnel who authorize hiring and those who process payments.
- Absence of periodic independent reconciliations of payroll registers against active employee files.

**Recommendations:**

- **Segregation of Duties:** Ensure that the functions of adding employees to the system, approving timecards, and distributing payments are handled by different individuals.
- **Automated Integration:** Synchronize HR and Payroll databases so that a termination in HR automatically triggers a suspension of payment in Payroll.
- **Mandatory Verification:** Implement a quarterly "physical count" or manager certification process where department heads must verify the active status of every employee on their budget.
- **Audit Trails:** Regularly review system logs for manual overrides or changes to bank account details for multiple employees.

Addressing these vulnerabilities is essential to safeguard the organization's assets and ensure the integrity of financial reporting. We are available to discuss these findings and assist in developing a formal remediation plan.

Sincerely,

[Insert Signature]

[Insert Printed Name]

[Insert Title]