MEMORANDUM

TO: Ronald B. McKinley, PhD
Vice President, Human Resources and Employee Services

FROM: Kimberly K. Hagara, CPA, CIA, CISA, CRMA
Vice President, Audit Services

DATE: July 5, 2016

SUBJECT: Human Resources Consulting Engagement
Engagement Number: 2016-028

At your request, the Office of Audit Services completed a consulting engagement to identify potential "ghost employees". Our methodology included analysis of employee-related institutional data and interviews with representatives from the Payroll, Human Resources (HR), and University Police departments. We conducted our work in accordance with the guidelines set forth in The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

Background

Fraud Magazine defines a 'ghost employee' as "someone on the payroll who does not actually work for a victim company. Fraudsters can falsify personnel or payroll records to generate payments to a ghost employee. The fraudster or an accomplice then converts these paychecks. The ghost employee may be a fictitious person or a real individual who simply does not work for the victim employer. When the ghost is a real person, it is often a friend or relative of the perpetrator. In order for a ghost-employee scheme to work, four things must happen: (1) the ghost must be added to the payroll, (2) timekeeping and wage rate information must be collected, (3) a paycheck must be issued to the ghost, and (4) the check must be delivered to the perpetrator or an accomplice."

Engagement Results

As part of the on-boarding process, new employees meet with HR representatives at the New Employee Welcome Center and provide personal information such as Social Security Number, proof of eligibility to work, banking information for direct deposit of paychecks and other payments, mailing address, and telephone number(s). Subsequent to this meeting, multiple areas within HR input employee and position-related data in the PeopleSoft Human Capital Management (HCM) job data panel. For example, one area inputs the name and address while another attaches the name to the position. The employee's HCM file is then interfaced/linked to the Kronos timekeeping system, which in turn, feeds to the PeopleSoft Payroll module. The resulting compensation is paid on a weekly or monthly basis depending on the employee's classification. Payroll department employees have "view only" access to the job data panel.

Analyses performed by Audit Services indicated the segregation of duties within current processes reduce the likelihood of creating a ghost employee in PeopleSoft HCM or Kronos. Additionally, we noted one minor compliance issue related to the content of employee files discussed in the next section.

Payroll, HCM, and Kronos Data Analyses
Using data analytics software, Audit Services compared a payroll summary file for the period September 1, 2015 to April 29, 2016, to the following HCM downloads:

- May 20, 2016 current employee listing
- September 1, 2007 to May 5, 2016 terminated employee listing
- May 13, 2016 online employee directory
- List of employees in Kronos fiscal years 2015 and 2016

Audit Services identified all employees in the payroll summary file as either active or terminated. For individuals identified as terminated, we reviewed payments (e.g. expense report reimbursements) subsequent to their termination date for validity. Thirteen employees received payments after the effective date of their termination. Our review of supporting documentation indicated all payments were valid.

Additionally, we reviewed the HR employment files for the 13 terminated employees tested above and noted only one of the 13 files contained the "Notice of Resignation" form required by institutional policy (IHOP) 3.1.2, *Employee Files*.

> **Recommendation 2016-028-01-PL:**
> The Vice President, Human Resources and Employee Services, should ensure the contents of institutional employee files comply with UTMB's Handbook of Operating Procedures Policy 3.1.2, *Employee Files*.
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> **Management's Response:**
> HR will conduct a review of employee files to ensure that they are in compliance with the aforementioned policy, and make corrections/additions/deletions to those files as needed and where possible.
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> **Implementation Date:** The review will be completed by 5/31/2017.

The HR Solutions and Analytics division provided a list of individuals in Kronos for fiscal years 2015 and 2016. Using data analytics software, we compared the Kronos file against the HCM terminated employee, active employee, and retired employee downloads. Auditors accounted for all but 52 individuals in the terminated employee, active employee, and retired employee downloads.

Auditors submitted the list of 52 individuals to UTMB's Employee Records Manager for review. The manager indicated a file existed for most of these employees, the majority of who termed in 2005. Audit Services interviews with HR representatives there is no policy addressing removing terminated or retired individuals from Kronos; however, separating/terminating an employee in PeopleSoft/HCM also terminates access to Kronos.

HR Solutions and Analytics provided a list of 1,351 individuals hired as "casual employees" between September 1, 2014 and May 31, 2016. HR representatives indicated casual employees work 19 hours or less per week and are not benefit eligible. Additionally, they route through the normal employee processes in HCM. Audit Services accounted for all 1,351 casual employees the through comparisons of payroll files, terminated listing, email address download, or Kronos.

Employee Identification Badge System Analysis
UTMB Health's University Police Department creates and issues photo identification badges for every employee. Due to the sensitivity of information held within the badging system, Audit Services was unable to obtain a download of the badge database for comparison with the entire population of HCM employee data. We subsequently selected a sample of 15 individuals, from a population of 100, with blank phone numbers and blank email addresses in the online employee directory and 25 individuals randomly selected from the payroll summary file. The University Police Department confirmed 38 of the individuals tested are in the badge database, and two have requests for badges pending.

Vacation and Sick Leave Analysis
Data mining for fictitious employees includes reviewing individuals with no use of vacation or sick leave. HR Solutions and Analytics provided a download for fiscal years 2015 and 2016 of employee vacation and sick leave used. Using data analytics software, we noted 175 employees that used no vacation and sick leave during the period tested. Additional research indicated 50 of the 175 are employees whose start dates are subsequent to August 31, 2015; 124 employees are students; and one employee works less than 19 hours per week.

Conclusion
Based on the engagement procedures performed, the controls and processes within PeopleSoft and Kronos reduce the likelihood of creating a ghost employee. Additionally, we noted an opportunity to improve compliance with institutional policies related to employee files.

Cc   Cheryl A. Sadro