

**Report to Management**  
**AUDIT OF THE HUMAN RESOURCES PROCESS**

**April 25, 2011**



**Texas Water Development Board**  
**Internal Audit**

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## **KEY POINTS OF INTEREST**

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### **Overall Conclusion**

In September 2007, Human Resources (HR) management changed and a turnover of HR staff occurred. Interviews with the Deputy Executive Administrators (DEAs) and directors indicated this change resulted in vastly improved customer satisfaction.

Testing revealed improvement in personnel records management:

- Files are stored within locked, fire-proof cabinets;
- Sensitive employee documentation (e.g., Family Medical Leave Act (FMLA), Americans with Disabilities Act (ADA), and Forms I-9) are stored separately from the personnel folders; and
- With the exception of certain payroll documentation, all required documents are present.

HR management and staff have worked diligently to improve the HR process and provide a high level of customer service to the agency. Internal Audit interviews and tests indicate:

- Communication has been enhanced;
- The HR process has been formally documented;
- Customer service has improved; and
- HR is viewed as a unit that serves and supports the agency's management and staff.

### **Key Facts and Observations**

Overall, interviews indicated HR has a good working relationship with the agency's DEAs and directors. The TWDB Employee Handbook is updated and accessible on the agency IWEB. HR reports are completed and forwarded in accordance with federal, state, and agency reporting requirements. HR staff are experienced, dedicated, and certified.

Review of a judgmental sample of Forms I-9 revealed that the forms are correctly filed separately from the personnel files in a locked fire proof cabinet. Testing revealed that some of the Forms I-9 in the sample are not in compliance with federal requirements.

Testing performed on a judgmental sample of personnel files revealed that they are properly secured in locked, fire-proof cabinets. Nevertheless, our review revealed some confusion regarding the official repository for certain important payroll forms, since the payroll direct deposit form and the tax withholding form (Form W-4) were not consistently found in the personnel files.

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A. Management Summary

1. Purpose

The purpose of this report is to present the conclusion, observations, recommended action plans, and management responses from an audit of the Human Resources (HR) process. This audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and Generally Accepted Government Auditing Standards.

The standards require the audit to be planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for observations and conclusions based on the selected audit objectives. The evidence obtained during the audit provides a reasonable basis for the observations and conclusions based on these objectives.

2. Background

The Human Resources (HR) division is located within Operations and Administration. As a Strategic Partner with the TWDB, the HR division is tasked with assisting the agency to obtain its goals. HR acts as a management advisor to ensure the agency's personnel policies are balanced and in compliance with the rules and regulations provided by the appropriate state and federal laws. HR also provides accurate and timely data that allows management to make quick, important decisions. Finally, HR is helpful and accessible to the agency's employees.

HR's stated mission (taken from its section of the agency IWEB):

*We are a value-added department providing state-of-the-art human resources programs, streamlined processes and human resources best practices. We are committed to supporting the goals of the Texas Water Development Board (TWDB) and its employees by providing excellent customer service while maintaining the highest standards of integrity, leadership, innovation, knowledge, efficiency, honesty, respect and confidentiality.*

*We believe our employees are our most valuable asset and it is our job to serve them.*

The division currently has five staff, composed of a director and administrative assistant, and three HR Generalists whose duties encompass employee actions, benefits, emergency leave, training, and other HR related responsibilities.

Fieldwork was conducted from December 10, 2010 through February 10, 2011. It involved a review of selected documents and interviews with the HR Director, the three HR generalists, and the administrative assistant. The Executive Administrator (EA), six (6) Deputy Executive Administrators (DEAs) and four (4) Division Directors were also interviewed. For purposes of this audit report, the EA, DEAs and Division Directors interviewed will be referred to collectively as management.

A prior internal audit report of the HR process was issued on April 11, 2006. The report recommended enhancements to customer service; revisions and clarifications to policies and procedures; process improvements for hiring, disciplining, and handling personnel action forms; enforcement of performance plan and appraisal requirements; and development and implementation of management training programs.

3. Scope and Objectives

The scope of this audit encompassed the examination and evaluation of the adequacy and effectiveness of the internal controls and quality of performance in carrying out assigned responsibilities in relation to the HR process. The scope included specific program steps designed to assess:

- Compliance with laws, rules, and regulations;
- Effectiveness and efficiency of operations; and
- Reliability, security, and integrity of information.

The objectives included procedures designed to determine if:

- The HR administration process works effectively and is formally documented;
- HR is effective in ensuring the accomplishment of TWDB's mission;
- Adequate training and oversight is provided to HR staff and management;
- The data and information maintained by HR is accurate, timely and secured;
- The HR process falls within the regulatory requirements; and
- HR meets its reporting requirements.

The audit of the HR division was scheduled in accordance with a management request and Internal Audit's annual audit plan. Although the scope of the audit encompasses the HR process, which comprises the entire agency, its *de facto* focus centers upon the HR division.

4. Conclusion

In September 2007, HR management changed and a turnover of HR staff occurred. Interviews with the DEAs and directors indicated this change resulted in vastly improved customer satisfaction.

Testing revealed improvement in personnel records management:

- Files are stored within locked, fire-proof cabinets;
- Sensitive employee documentation (e.g., Family Medical Leave Act (FMLA), Americans with Disabilities Act (ADA), and Forms I-9) are stored separately from the personnel folders; and
- With the exception of certain payroll documentation, all required documents are present.

HR management and staff have worked diligently to improve the HR process and provide a high level of customer service to the agency. Internal Audit interviews and tests indicate:

- Communication has been enhanced;
- The HR process has been formally documented;
- Customer service has improved; and
- HR is viewed as a unit that serves and supports the agency's management and staff.

5. Action Plans

The following steps are recommended:

The HR division should ensure that all Forms I-9 are properly completed and signed, blank I-9 forms are photocopied on both sides, and a consistent policy concerning the photocopying of support documents is created and enforced.

HR and Finance management should determine the official repository for payroll forms. HR and Payroll should also develop and agree upon a formal policy for processing, securing, and managing the forms to include a disposition procedure upon employee separation from TWDB.

**B. Detailed Observations**

**1. The Human Resources Process is Effective, Documented, and Serves the Agency's Management and Staff**

Overall, interviews indicated HR has a good working relationship with the agency's DEAs and directors. Management complimented the HR director and staff for the assistance and customer service they provided, and described HR as positive, efficient, and helpful.

HR is a strategic partner with the TWDB. HR acts as a management advisor to ensure the agency's personnel policies are balanced and in compliance with the rules and regulations provided by the appropriate state and federal laws. HR also provides accurate and timely data that allows management to make quick, important decisions. Finally, HR is helpful and accessible to the agency's employees.

The TWDB Employee Handbook has been recently updated and is accessible on the agency IWEB. The handbook contains HR policies and procedures. The recruitment, selection, and hiring processes are documented and governed by a set of checklists.

The HR Strategic Plan and Mission Statement are part of the agency's strategic plan. HR participates in the agency's workforce and recruitment plans. These reports are prepared annually and forwarded to the State Auditor's Office, the Governor's Office, the Legislative Budget Board, and the Workforce Commission.

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HR is subject to federal, state, and agency reporting requirements. As an example: Reports such as the Equal Employment Opportunity report are due annually; the Veterans Workforce Summary report is due quarterly; and various payroll and position reports, such as the Active Position Listing Report and TWDB Service Awards Report are due monthly. A review of the HR Director's reports checklist revealed that reports are completed and forwarded in accordance with the reports' requirements.

Discussion with the HR Director and review of encumbrance reports revealed the HR budget is sufficient to allow the division to perform its duties.

HR staff are experienced, dedicated, and certified. The HR Director and three of the four staff members hold the Professional Human Resources (PHR) designation. Continuing education to maintain their certifications is required and provided.

**Recommended Action Plan 1:** None required.

**2. Forms I-9 are Properly Segregated from Personnel Files; However, Consistency in Documentation is Needed**

Forms I-9 are required by the federal government. They document each new employee's authorization to work in the United States and are completed during new employee orientation. Review of a judgmental sample of Forms I-9 revealed that the forms are correctly filed separately from the personnel files in a locked, fire-proof cabinet. Testing revealed that some of the Forms I-9 in the sample are not in compliance with federal requirements.

- Ten of the 20 Forms I-9 reviewed (50%) contained one or more errors. The most common error was photocopying only one side of a blank I-9 form.
- One Form I-9 was not signed or dated by the employee.
- One Form I-9 was signed but not dated by the employee.
- Support documentation was not consistently photocopied.

The instructions for Forms I-9 state: *A blank form I-9 may be reproduced, provided both sides are copied. The instructions must be available to all employees completing this form. In addition, the instructions state: Employers may, but are not required to, photocopy the document(s) presented. If photocopies are made, they must be made for all new hires.* Failure to maintain Forms I-9 in accordance with federal requirements could result in fines to the agency.

**Recommended Action Plan 2:** The HR division should ensure that all Forms I-9 are properly completed and signed, blank I-9 forms are photocopied on both sides, and a consistent policy concerning the photocopying of support documents is created and enforced.

**Management Response 2:** Management agrees with the recommendation. Human Resources has revised the process for I-9 compliance to ensure that the correct 2-sided form is in place for new employees. Furthermore, Human Resources has removed photocopies of all supporting I-9 documentation and will cease in retaining copies of such documents in the future. All future I-9 documents will be thoroughly reviewed in accordance with the audit recommendations in conjunction with the new process.

**Responsible parties:** Human Resources staff.

**Estimated completion date:** Completed March 8, 2011.

### 3. **Personnel Files are Properly Secured, But Not Consistent in Form Content**

A review of a random sample of 20 personnel files indicated they were properly secured in locked, fire-proof cabinets. Sensitive information, such as Americans with Disabilities Act (ADA), Family and Medical Leave Act (FMLA), and Forms I-9 documentation, were appropriately filed separately and not included within the personnel files.

However, testing revealed the following: Six (6) of the 20 folders reviewed (30%) did not contain the payroll direct deposit form and/or the tax withholding form W-4 (hereinafter collectively referred to as “payroll forms”).

Payroll forms are stored in two locations: HR (in the employee’s personnel folder) and Finance (in the employee’s payroll folder). In HR, the personnel folders are maintained in locked, fire proof cabinets. In Finance, the payroll folders are stored in locked, non-fire proof cabinets.

Payroll forms contain sensitive employee information and are subject to federal retention requirements. It was difficult to determine if control of the forms rests with HR or Finance. In the event of an employee separation, it is not clear whether Payroll or HR should maintain or dispose of the forms.

HR would appear to be the logical repository for payroll forms (it is HR’s responsibility to ensure the forms are completed during new employee orientation and they are normally included in the personnel files). However, the State Records Retention Schedule delineates Finance as the official repository. Finance requires the forms to ensure they have documentation to support entries made for employees into the payroll system.

**Recommended Action Plan 3:** HR and Finance management should determine the official repository for payroll forms. HR and Payroll should also develop and agree upon a formal policy for processing, securing, and managing the forms to include a disposition procedure upon employee separation from TWDB.

**Management Response 3:** Management agrees with the recommendation. At time of receipt, Human Resources will make copies of W4 and Direct Deposit forms to send to Payroll for processing. Human Resources will retain the original forms for W4 and Direct Deposit in the employee personnel files. The TWDB Retention Schedule will reflect these changes, indicating Human

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*Resources as the official repository of record for the W4 and Direct Deposit forms. Agency staff will be informed that any changes to these forms will be directed to Human Resources for appropriate processing. Any original forms received in Payroll from the effective date and going forward will be provided to Human Resources. All 2010 or prior separated employee files residing in Payroll will be provided to Human Resources for appropriate disposition. All future separated employee files will be provided to Human Resources 90 days after the end of the calendar year.*

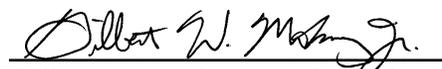
**Responsible parties:** Human Resources, Accounting (Payroll) and Records Management.

**Estimated completion date:** Completed implementation of this new process March 8, 2011.



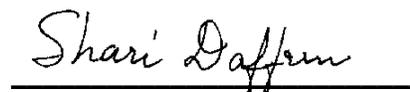
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