Audit Summary

The Office of Human Resource Management appears to have an adequate system of internal controls in place. However, the following report details ways by which the department can further enhance internal controls and compliance with UT Dallas policies, procedures, and best practices.

Departmental Background

The Department of Human Resources Management's (HR) mission statement is, "*To enable the success of others. What we do should help others be their best at what they do best.*" [1]

The department is managed by the Assistant Vice President (AVP) of Human Resources who reports to the Vice President for Administration. The department had been without a department head from September 2011 until the new AVP of HR was hired in June of 2012. HR provides a number of crucial services to the University, including recruitment, benefits, compensation, employee relations, and training and development. HR had previously included Payroll responsibilities, which have now been moved under the finance department. The benefits department had a dual reporting relationship with the finance department in the past and after the arrival of the new AVP of HR has returned to reporting solely to HR. The AVP of HR will be reorganizing the department's operations over the coming fiscal year as part of her strategic plan.

Human Resources Departmental Summary	
FY 2012 Department Budget	$ 1,193,745.00[2]
Number of Employees	17

Objective and Scope

The objective of this audit was to provide assurance to UT Dallas management that an adequate system of internal controls is in place in the Human Resources Management Department and to provide reasonable assurance of sound management. Departmental audits are part of the yearly audit plan, approved by the President and Audit Committee, and also occur when there is a change in departmental leadership. The scope of this audit was fiscal year 2012.

To complete this objective, we reviewed selected areas of departmental operations regarding the reliability and integrity of financial and operating information, the effectiveness and efficiency of operations, the safeguarding of assets, and compliance with laws and regulations. Specifically, we performed the following:

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[1] FY 2013 strategic planning presentation emailed by Colleen Dutton.
[2] This budget figure represents the original expense budget for the HR cost centers for FY12, taken from the account reconciliations.

- Gained an understanding of operations through a departmental self-assessment, interviews, anonymous survey of staff, and review of requested information, policies and procedures, and other documents relevant to internal controls within the department.

- Conducted a risk assessment of departmental operations and focused testing on key risk areas within the department. We tested selected items from the following areas:
    - Account Reconciliations
    - Expenses
    - Purchasing Cards
    - Assets
    - Information Security
    - Workforce Management

Where applicable, our examination was conducted in accordance with guidelines set forth in The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. The *Standards* set criteria for internal audit departments in the areas of independence, professional proficiency, scope and performance of audit work, and management of the internal auditing department.

Audit Results

Internal controls are designed to provide reasonable assurance regarding the achievement of departmental objectives in the following categories: a) effectiveness and efficiency of operations; b) reliability of financial reporting; and c) compliance with laws and regulations. Department heads are ultimately accountable for the internal controls in place in their department.

Category	Recommendations
Best Practices	The new AVP of HR is implementing many new initiatives currently and in FY 13 to enhance departmental operations, including: ○ A comprehensive approach to talent management. ○ A culture of communication and openness. ○ Adding positions in some critical areas. ○ Revision and streamlining of the hiring process. ○ Implementation of a consistent and comprehensive termination process.
Purchasing Card Policy Compliance	In our testing we found two purchases out of seven to be non-compliant with the University purchasing card policy. From our sample of transactions, we identified one instance of a membership fee charged to the purchasing card and one instance for which no itemized receipt could be produced for the expense.

Category	Recommendations
	University purchasing card policies state, "memberships may not be purchased on a purchasing card without approval by the President" and "sales receipts for purchases with a purchasing card should be retained."
	The cause for these instances of non-compliance centered on a general misunderstanding of purchasing card policy and lack of a consistent account review process for these types of transactions.
	Without a formalized and consistent review process more instances of non-compliance could go undetected and result in potential misuse of state funds.
	Recommendation: The department's purchasing card holders should regularly review established UTD purchasing card policies to maintain familiarity with the requirements of the program. To ensure compliance with all applicable sections of the policy, HR purchasing card transactions should be actively and thoroughly monitored by the approver function within the department.
	Management's Response and Action Plan: *The purchases in question were in 2011 during a time of transition and vacancies within the HR department impacting the approval and review process. The appropriate positions that will oversee compliance with this policy are now filled and internal reviews and controls have been established.* ***Estimated Implementation Date:*** *11-15-12* ***Responsible Person:*** *Colleen Dutton, Assistant VP and Becky Zirkle, Administrative Assistant II*
Cell Phone Reimbursement Policy	The UTD Cellular Communications Equipment policy, located in the Administrative Policies and Procedures Manual, A5-140.0, provides guidance regarding the acquisition and use of cellular communications equipment. Section D.5 states "Administrative Unit heads are required on an annual basis to review a minimum of one month of employee's current detailed wireless statements and to certify that eligibility remains appropriate." [3] Additionally, the policy states the department head is responsible for the following: • Determining whether the employee's position requires a communication device based on his or her job duties and responsibilities;

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[3] http://www.utdallas.edu/utdgeneral/business/admin_manual/pdf/a514002.pdf

Category	Recommendations
	• Retaining a copy of the completed and approved Communication Device Allowance Request form in the employee's administrative unit personnel file. During our audit we found that two employees receive reimbursements from the university for their cell phones, and cell phone expenses totaled $900 during FY 2012. The department did not have the appropriate documentation on file to ensure compliance with the cell phone policy. From discussion with management, it was determined that the person responsible, the new Assistant Vice President of Human Resources, was not aware of the policy requirements. Without a regular review process, an eventual change in the eligibility for or appropriateness of the amount of a reimbursement could go undetected, increasing expenses for both the department and the university. **Recommendation:** We recommend that the department head ensure compliance with the UTD cellular communications equipment policy. ***Management's Response and Action Plan:*** • *The new AVP for HR is now aware of the policy requirements and the policy issued to the employees receiving an allowance.* • *The need for HR staff who currently receives cell phone allowances has been reviewed by the AVP and steps have been implemented for a review on an annual basis. It should be noted that the current Cellular Communication Equipment Policy, A5-140.3, which states, "Administrative Unit heads are required on an annual basis to review a minimum of one month of employee's current detailed wireless statements.", does not reflect the change in technology and manner in which cell phones are used in today's workforce. In HR, the cell phone (i.e. smart phone) is more generally used for work related text or email messages – which is not reflected on the employee's personal cell phone statement. However, the AVP will attempt to verify annually, via an employee's monthly cell phone statement, that the cell phones are actually used for work related matters, and will confirm based on her own electronic/cellular communications with each employee the amount of work related usage.* ***Estimated Implementation Date:*** *11-15-12* ***Responsible Person:*** *Colleen Dutton, AVP*

Privacy Issues	During the course of our audit work, the following situations for potential compromise of sensitive information were brought to our attention or observed:
	• Files were observed on employee's desks and in the common area around the fax and copy machines.
	• Staff members disclosed that confidential benefits conversations were often held at employee's desks where other employees visiting the department could overhear.
	Certain forms of information regularly handled by HR are protected by State and Federal law. The HR benefits staff work with insurance information that is covered by the Health Insurance Portability and Accountability Act (HIPAA), for example. The law imposes certain duties of providing reasonable protection for employee medical information in the covered institution's care. In addition to the duty imposed by the law, it is a generally good business practice to protect confidential information to help the University avoid reputational risks and potential fines and penalties that may arise from information inadvertently compromised.
	Recommendation: Management should develop policies and procedures for the handling of confidential information and ensure employees are properly trained with regards to applicable State and Federal laws.
	Management's Response and Action Plan: *The HR suite has limited space and only a few private offices so maintaining confidentially is challenging for all. However, employees were instructed at a staff meeting on 11-13-12 they are responsible for protecting confidential information and to use a private meeting room if available when meeting with employees; to take necessary steps so that confidential information is not displayed or exposed on their work area while they are away or if meeting with an employee in their work station; that all HR employees are required to complete the on-line HIPAA training by December 15, 2012; and to not leave faxes received or files open for viewing by the copy machine or the work table. To lessen the exposure of confidential data being viewed by others, a box will be placed on the work table so confidential faxes may be set aside for pick up or placed in the designated employee's mail box if they are not at their desk.* ***Estimated Implementation Date:*** *12-15-12* ***Responsible Person:*** *Colleen Dutton, AVP*

Training	HR lacks a formal internal training program to ensure staff are up-to-date with changes in laws and regulations (i.e. HIPAA privacy training), and other related issues that could affect the efficiency and effectiveness of its employees.
	
	UTD's Human Resources department oversees a number of functions within the organization, including hiring, training, monitoring of human resource policies and handling employee relations. In addition, the department is responsible for keeping employees up-to-date on certain employment laws. To insure the department meets UTD and University of Texas System Human Resource policies, it is an essential best practice that the HR staff is adequately trained in their areas of particular responsibility.
	
	It was noted that the causes for this lack of training include:
	
	• A lack of budgetary resources for training to keep professional skills and competencies up-to-date
	
	• The causes for the lack of HIPAA training included:
	    ○ HR was not identified as needing HIPAA training
	    ○ There is no person responsible over HIPAA privacy
	    ○ HR management did not request HIPAA training for their staff
	
	The lack of a documented and formalized internal training program within HR increases the potential for HR employees to be ineffective and non-compliant with policies and procedures, both within UT Dallas and the System.
	
	Recommendation: A formalized training program that considers all essential functions within the department and keeps staff apprised of changes in federal, state, and local laws that are applicable to HR functions would address the identified deficiencies.
	
	Management's Response and Action Plan:
	• *All HR employees are required to complete the on-line HIPAA training by December 15, 2012.*
	• *Professional development needs are still being assessed and appropriate funds will be requested based on current skill sets and future talent needs. Professional development will be incorporated into each employee's annual review.*
	Estimated Implementation Date: *3-30-13*
	Responsible Person: *Colleen Dutton, AVP, and the HR Directors for the functional areas – Benefits, Employee Relations and Organizational Development, Employment Services, and Institutional Equity.*

Policy and Procedure	While reviewing HR operations, we found the following:
	• Policies and procedures were out of date.
	○ During our interviews, staff identified that the procedures for monitoring or maintaining certain processes were not up to date.
	○ Desk procedures detailing how to perform HR functions had not been created.
	○ Many HR policies in the UTD Administrative Policies and Procedures Manual have not been updated in over ten years.
	• Employee job duties were not documented for all essential jobs.
	• There was no process to consistently inform or periodically remind employees of certain policies.
	• There was no process to monitor outside employment in the HR department, other than at the time of hire.
	The risk of error, fraud, inefficiency, and ineffectiveness is generally increased when there is not an established or current documented expectation for job duties. Policy and procedure that are well developed and maintained provide employees with consistent and accurate guidance in the course of daily operations.
	Recommendation: HR should establish a regular time frame, subject to change as conditions warrant, to review its policy and procedures, as well as to provide training to staff on subjects that are especially relevant. It would also be beneficial to have job functions within HR clearly documented and readily available so that, in the event of an absence, the duties may be performed by someone else in the organization and employees are clear as to responsibility and expectation given current essential job duties.
	Management's Response and Action Plan:
	• *An HR policy review project was implemented in August 2012 and is being led by Tracy Dorsey, Assistant Director. Tracy will work with the various functional leads in reviewing all HR policies for accuracy and relevance, and will submit suggested edits and/or changes to the AVP for review according to the project plan. Target completion date is August 2013.*
	• *HR polices will be reviewed every 2 years and/or as needed based on business needs. Policy updates and reviews will be completed at HR staff meetings as needed and/or every 2 years as part of the review process.*

	• *Rocio Ronde, HR Specialist, will lead efforts on the HR job duties/process documentation review. This project was initiated in October 2012 and she will work with leads from each functional area to document the key process/duties. Target completion date is August 2013.* ***Estimated Implementation Dates:*** *Policy review project – August 2012* *Job duties/Process documentation review – October 2012* ***Responsible Person:** Colleen Dutton, AVP for HR*
Other Issues	Other minor issues were discussed with management such as communication within the department, account reconciliations, and asset tracking. Management has acknowledged the issues and will work to address them as best aligns with departmental operations and the university's needs.

We appreciate the courtesy and cooperation received from the management and staff of Human Resources.

Toni Messer Stephens
Executive Director of Audit and Compliance

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