# UTHealth Houston

## Auditing and Advisory Services

## 23-111 Change in Management – Human Resources

**EXECUTIVE SUMMARY**

Auditing & Advisory Services (A&AS) has completed an assurance engagement of the change in management (CIM) at Human Resources. This engagement was performed at the request of the UTHealth Houston Audit Committee and was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing.*

**Background**

Human Resources (HR) within UTHealth Houston offers the following services or support to the institution:

- Client Based Resources
- Compensation
- Employee Assistance Programs (EAP)
- Employee Relations
- Employee Services
- Executive Recruitment
- HR Technology
- Organizational and Talent Development (O&TD)
- Talent Acquisition
- University Relations/Equal Opportunity

The current Vice President and Chief Human Resources Officer was named on May 1, 2023.

**Objectives/Scope**

Our objective was to determine whether operational and financial controls of Human Resources are adequate and functioning as intended. Specifically, to determine if:

- Onboarding and training procedures for new employees within Human Resources to educate employees on state law and departmental practices are reasonable.
- Internal controls based on responses to the most recent Internal Control Questionnaires are appropriate.
- Department budget is properly developed and monitored.
- Spend activities for Human Resources are processed in accordance with established Procurement guidelines.
- Official functions are processed in accordance with HOOP 12.
- Review and validation procedures for Human Resources are performed in accordance with UT System Policy 142.1 and UTHealth Houston requirements.
- Controls around selected processes as follows:
  - Areas of responsibility under Client Based Resources.
  - Determining and reviewing compensation, caseload management, job code table, and contract monitoring under Compensation.
  - Contract agreements and monitoring, cash handling, aged accounts receivable, and user access under EAP.

- o   Annual performance appraisals under Employee Relations.
- o   Onboarding of new employees at UTHealth Houston and contract monitoring under Employee Services.
- o   Requisition management, candidate evaluation, salary offers, and counter offers under Executive Recruitment.
- o   Information systems procurement and implementation, system security risk assessment, executed agreements, security configuration, user access, disaster recovery under HR Technology.
- o   Annual compliance training, cash handling, and contracts monitoring under O&TD.
- o   Requisition management, candidate evaluation, salary offers, counter offers, and contract monitoring under Talent Acquisition.

In addition, we sent out surveys to hiring managers in departments across the institution who hire a large number of employees to gain their perspective on the overall process.  Respondents were satisfied with the recruitment process, specifically with their current assigned recruiter, who goes above and beyond, helpful, professional, and responsive.  Some opportunities for improvement were noted around the physician and advanced practice provider onboarding processes to ensure completion of credentialing prior to their start date and turnaround times for requests for new positions.

**Scope Period**
September 1, 2022 through August 31, 2023, unless otherwise noted.

**Conclusion**
Overall, controls around selected financial and operations within Human Resources are adequate and functioning as intended.  We noted the following opportunities for improvement:

| # | Observation Summary | Risk | Risk Rating |
|---|---|---|---|
| 1 | Processes have not been established to ensure adequate internal controls and separation of duties as required by UTS 142 *Financial Accounting and Reporting*. | Current operational and financial practices could lead to inefficient and ineffective controls over revenue, expenditures, and/or budgeting. | High |
| 2 | Oversight processes have not been fully established to review completed salary offers, salary offer recommendations, and market analysis recommendations. | Due to the subjective nature of interpreting education and prior work-related experience, the potential for inconsistent salary offers could occur. | Medium |
| 3 | A process has not been established to ensure UTHealth Houston IT policy and procedures is consistently followed. | Undetected security risks. | Medium |

## OBSERVATIONS & MANAGEMENT RESPONSES

| #1 – Internal Controls |
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**Cause**

Processes have not been established to ensure adequate internal controls and separation of duties as required by UTS 142 *Financial Accounting and Reporting*.

**Risk**

Current operational and financial practices could lead to inefficient and ineffective controls over revenue, expenditures, and/or budgeting.

**Condition**

We reviewed processes within Human Resources and noted the following:

Cash Handling

We reviewed the cash and cash equivalents handling process in O&TD and EAP and noted the following:

- Cash handling responsibilities are not adequately separated. (O&TD)
- Payments are not deposited timely in accordance with the Cash Handling Manual. (O&TD & EAP)
- Payments are not recorded timely in PeopleSoft FMS. (O&TD)

FMS Recording

PeopleSoft FMS is UTHealth Houston's official accounting records.  We reviewed a sample of 10 contracts within EAP and noted the following:

- Inconsistent use of PeopleSoft FMS Account codes for one fee for service client. Account code 40725 *Sales, Services and Commission* was used for two months of the scope period and account code 41025 *Miscellaneous Income – Unres* for the other ten months.
- Incorrect PeopleSoft FMS Class classification was used for one client. Class code 10299 *Port of Galveston* was used when recording revenue collected from the University of Tyler when class code 10293 *University of Texas – Tyler* was available.

Segregation of Duties

We reviewed the current role and responsibilities of the Manager of EAP, Business Operations within the EAP team and Human Resources and noted the following:

- Managed EAP financial business operations by monitoring revenue and expense accounts.
- Reconciled deposit slips and the cash/checks receipt log.
- Provided support to the Associate Vice President (AVP), Assistant Director, and EAP account managers through reporting, interfacing with Legal Affairs, and other contract needs.
- Functioned as a department approver in PeopleSoft FMS.
- Functioned as a department submitter in PeopleSoft HCM.
- Assisted the AVP and VP, Chief Human Resources Officer to develop and monitor the overall budget for EAP and Human Resources department.
- Received and reviewed the monthly Review and Validation files for appropriateness, correctness, and timeliness. We noted the *Departmental Approvers* tab in some of the spreadsheets listed FMS requesters who are no longer with UTHealth Houston.

In addition, the Manager is the only individual with access to the Filemaker Pro database where financials information is compiled and summarized. At the time of our review, the process for

monitoring the department budget and communicating the information to applicable Human Resources' team leaders and the Chief Human Resources Officer currently does not exist.

<u>Official Functions</u>
We selected a sample of 10 official functions for review and noted the following:
- 4 instances where a complete list of attendees present at the official function and their institution affiliations was not included as supporting documentation. As a result, we are unable to determine whether the cost per person was within the required limit.
- 2 instances where prior approval from department head or vice president was not obtained for departmental holiday parties.
- 1 instance where secondary approvals from COO/CFO, President or designee were not obtained for actual costs that exceeded policy for an internal retreat/workshop.

<u>Contract Employees</u>
We reviewed the process to review and approve contract employees within Human Resources and noted the following:
- Inconsistent use of account codes when entering contract employee expenditures.
- Team leaders approve contract employee timesheets. However, a process for team leaders to verify invoices for contract employee services has not been developed.

**Criteria**
UTS 142 *Financial Accounting and Reporting*, Section 5 *Duties of Financial Reporting Officer* requires the following:
- Each Financial Reporting Officer has direct responsibility for the establishment of efficient and effective internal controls over the financial accounting system and financial reporting.
- The Financial Reporting Officer shall develop or update a monitoring plan for the segregation of duties and reconciliation of accounts.

HOOP 151 *Financial Reporting* states*:*
- "Accounting and Budget has direct responsibility for the establishment of efficient and effective internal controls over the preparation of the annual financial report. Heads of departments and functions are responsible for the approval of accounting records and for establishing internal controls to ensure that funds are expended and recorded appropriately."

*UTHealth Departmental Account Review and Validation Procedures*, modified January 2023, established by Finance & Business Services, Accounting & Budget requires the following:
- UTHSCH management recommends departments place reliance on internal controls in place and therefore recommends a review and validation of departmental accounts. UTHSCH management does not recommend departments maintain a shadow system.
- Adequate segregation of duties should be maintained at all times.

The *Cash Handling Manual* requires the following:
- There must be a separation of duties between the person receiving cash and the person responsible for maintaining the accounting records.
- Only a minimum number of employees should handle cash from receipt to deposit. If the size of the department staff makes proper segregation of duties impossible, a second person must verify reconciliations of cash item accounts.

- Cash or cash equivalents should be submitted for deposit daily, if above $200.00, or at least by week's end if less than $200.00.

HOOP 12 *Official Function Expenditures (Entertainment)* requires, amongst other items:
- Reimbursement of official function expenditures must include names of individuals present at the function and their institutional affiliations.

Supply Chain Management Official Functions guidelines requires the following:
- Prior approval of academic or business department head, dean, hospital administrator, vice president, executive vice president, or president are required for departmental holiday parties.
- Secondary approvals and justification are required for official functions with actual costs that exceed policy referenced on the Policy Guidelines Matrix. Internal retreats/workshops that exceed $2,500 require prior approval of COO/CFO, President or designee, in addition to reporting line approval.

UTHealth Houston's *Contract Management Handbook* states, "An expenditure document review includes analysis of contractor invoices (including feeds for goods/services and expenses) to determine (1) if the fee rates and expenditure items are permitted under the terms of the contract, and (2) if the supporting documentation (including cost reports, third party receipts for expenses, and detailed client information) adequately support the invoice."

The handbook further states, "All invoices should be reviewed to ensure contractor is billing the Institution only for goods/services actually received by the Institution; goods/services have been inspected and accepted by the Institution; the invoice is correct and complies with the pricing terms and other contract requirements."

**Recommendation(s)**

Develop and implement a system of internal controls around operational and financial practices that complies with all applicable UTHealth Houston policies and procedures, to include but not limited to:

a) Cash handling responsibilities should be adequately segregated in accordance with the Cash Handling Manual.

b) All payments received should be recorded and deposited in accordance with the Cash Handling Manual.

c) Revenue should be correctly recorded and classified in PeopleSoft FMS.

d) Conflicting responsibilities and/or duties should be adequately segregated to ensure compliance with UTS 142 Financial Accounting and Reporting.

e) Official function forms should be completed in accordance with HOOP 12 and Supply Chain Management Official Functions guidelines.

f) Requests for contract employees should be processed uniformly in PeopleSoft FMS.

g) Vendor invoices for contract employees should be verified by relevant sources.

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| **Rating**<br>High |
| **Management Response**<br>The department of Human Resources has historically operated within a lean staffing structure for processes related to revenue, expenditures, and overall budget management. The CHRO will expand the roles and responsibilities of three staff members in Human Resources to address the recommendations and create processes for:<br>• Timely recording and deposits of cash and cash equivalents<br>• Segregation of duties<br>• FMS code recordings<br>• Official functions<br>• Contract employee processing<br>• Vendor invoices<br><br>**Responsible Party**<br>Karen Spillar, Vice President & Chief Human Resources Officer<br>Jennifer Anderson, Associate Director of Human Resources Services Integration<br><br>**Implementation Date**<br>January 29, 2024 (to be verified by A&AS) |

| #2 – Salary Offers and Recommendations |
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**Cause**

Oversight processes have not been fully established to review completed salary offers, salary offer recommendations, and market analysis recommendations.

**Risk**

Due to the subjective nature of interpreting education and prior work-related experience, the potential for inconsistent salary offers could occur.

**Condition**

Compensation Services provides expertise in developing, implementing, communicating, and administering UTHealth Houston's classified and management administrative and professional (MAP) compensation programs and policies.

Salary Offers – Classified Employees

Talent Acquisition is responsible for facilitating salary offers for classified employees through partnership with Compensation Services and the hiring manager. We reviewed a sample of 10 classified new hires and 5 classified promotions and noted the following:

- Several inconsistencies between the salary guidance spreadsheets and supporting documentation, of those there was one new hire and two promotions where the salary offer may have been impacted.

Salary Offer – MAP Employees

Executive Recruitment is responsible for facilitating salary offers for MAP employees through partnership with Compensation Services and the hiring manager. We reviewed the process for providing salary offer recommendations for MAP new hires and noted the potential for inconsistent salary offer recommendations among analysts.

Market Analysis – Classified & MAP Employees

Compensation Services is responsible for performing market analysis services for classified and MAP employees. We reviewed the process for providing market analysis recommendations and noted the process contains the same potential for inconsistent market analysis recommendations among analysts.

**Criteria**

Salary offer procedures for classified new hires and promotions include the following:

- Hiring leader notifies assigned recruiter when they would like to extend an offer to a candidate.
- Recruiter completes salary guidance spreadsheet to determine the salary offer by entering the candidate's years of education and experience in comparison to the minimum requirements for the position.
- The spreadsheet includes preformatted fields and a section where the user must determine the relevancy of a candidate's prior work experience to calculate the salary offer.
- The salary amount is forwarded to the hiring leader for final approval.

Salary offer recommendation procedures for MA&P new hires include the following:

- Executive Recruitment completes salary guidance spreadsheet and submits to Compensation Services for review and to provide a salary recommendation based on internal equity.

- Compensation analyst obtains a list of employees in similar roles to the new hire by identifying job codes in the same salary grade, standard occupational code (SOC), and with the same minimum qualifications.
- Compensation analyst reviews the information and provides salary guidance that includes both a recommended actual guidance and an allowable range for acceptable variation based on defined criteria.
- The salary guidance is forwarded to Executive Recruitment to present to the hiring leader.

Market analysis procedures include the following:
- Department submits request for market analysis to Compensation Services along with job description(s).
- Compensation analyst reviews the external market to identify roles with similar job description qualifications in the region and industry to determine the going rate for the job.
- The salary recommendation is forwarded to the department along with information about the next steps.

**Recommendation(s)**
Develop and implement oversight processes to review on a sample basis alignment with guidance with respect to completed salary offers, salary offer recommendations, and market analysis recommendations.

**Rating**
Medium

**Management Response**
Human Resources will develop and implement an oversight process for completed salary offers, salary offer recommendations, and market analysis recommendations.

**Responsible Party**
Karen Spillar, Vice President & Chief Human Resources Officer
Jennifer Anderson, Associate Director of Human Resources Services Integration

**Implementation Date**
January 29, 2024 (to be verified by A&AS)

| **#3 – Information Systems** |
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**Cause**

A process has not been established to ensure UTHealth Houston IT policy and procedures is consistently followed.

**Risk**

Undetected security risks.

**Condition**

We reviewed eight information systems used by the Human Resources department and noted the following:
- 3 systems do not have a security risk assessment performed or available for review. For one of the three systems, management informed us an assessment may have been performed when the system was purchased in 2010; however, biannual re-assessments were not performed as required by HOOP 175. Management is in the process of upgrading to a new system, therefore a reassessment at this time is not warranted. For the remaining two systems, a security risk assessment has been completed after our audit procedures and verified by A&AS.
- 2 systems do not have Disaster Recovery (DR) Plan information available for review. For one cloud-based system, the vendor has provided a copy of a SOC 2 Type 2 report to IT Security after our procedures and this has been verified by A&AS. The remaining system is hosted on-premise and should have a DR Plan established.
- 1 system had a requisition totaling $107,800; however, existing Coupa's approval chain does not show approval from the Chief Information Officer as required by ITPOL-022.
- 1 system does not have single sign-on security configuration enabled. We reviewed the password security configurations and noted the security options required by ITPOL-002 are available; however, they are currently not set-up at the time of our procedures. As of November 20, 2023, management has implemented the security options available and sent to guidance to all applicable employees. The implementation has been verified by A&AS.

**Criteria**

HOOP 175 *Roles and Responsibilities for University Information Resources and University Data* requires the following of the System Owner:
- "Perform a risk assessment annually for Mission Critical Information Resources and biennially for non-Mission Critical Information Resources. Identify and document actions required and taken to meet acceptable risk levels. Implement mitigation strategies as needed. Ensure that information security is addressed throughout the life cycle of the information resource."
- "Include an adequate disaster recovery plan for the system as part of the departmental business continuity plan; see the Information Security Program. Assure that the assigned Custodian has a copy of the disaster recovery plan."

ITPOL-022 *Procuring Information Technology* requires procurements of information technology in excess of $50,000, regardless of funding source, must be reviewed and approved by the VP of Information Technology and Chief Information Officer (CIO) prior to the purchase order being issued. The CIO delegated the final IT approval authority to a school/area IT approver for procurements of information technology contracts within the school less than $50,000 and renewals of existing information technology contracts with increase of less than 15% over the current year.

ITPL-002 *Password Policy* outlines the following password standards:
- "6.1.1 Passwords for user accounts, administrator accounts and critical system accounts must be changed at least every 180 days.
- 6.1.2 Passwords must have a minimum length of 10 characters.
- 6.1.3 Passwords must contain a mix of upper and lower case characters and have at least 2 non-alpha characters.
- 6.1.4 A password may not be reused for a minimum period of two years"

**Recommendation(s)**
a) Work with IT Security to ensure a process is developed and implemented to perform security risk assessments as required by HOOP 175.

b) Work with IT Security to ensure adequate DR information is maintained for cloud-based system or an internal DR plan is documented for on-premise system, as applicable.

c) Ensure all procurement of information technology are in accordance with ITPOL-022.

**Rating**
Medium

**Management Response**
Human Resources recognizes the significance and importance of IT Security. We will work with IT Security and the Chief Information Officer as recommended.

**Responsible Party**
Karen Spillar, Vice President & Chief Human Resources Officer
Naga (Krishna) Kadiyala, Associate Vice President Human Resources Innovation, Analytics and Technology Services

**Implementation Date**
January 29, 2024 (to be verified by A&AS)

We would like to thank the Human Resources staff and management who assisted us during the engagement.

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Daniel G. Sherman, MBA, CPA, CIA
Vice President & Chief Audit Officer

**OBSERVATION RATINGS**

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| **Priority** | An issue that, if not addressed timely, has a high probability to directly impact achievement of a strategic or important operational objective of UTHealth Houston or the UT System as a whole. |
| **High** | An issue considered to have a medium to high probability of adverse effects to a significant office or business process or to UTHealth Houston as a whole. |
| **Medium** | An issue considered to have a low to medium probability of adverse effects to an office or business process or to UTHealth Houston as a whole. |
| **Low** | An issue considered to have minimal probability of adverse effects to an office or business process or to UTHealth Houston as a whole. |

**NUMBER OF PRIORITY OBSERVATIONS REPORTED TO UT SYSTEM**
None

**MAPPING TO A&AS FY 2023 RISK ASSESSMENT**

| Reference | Risk |
|---|---|
| Not Applicable | This engagement was requested by management. |

**DATA ANALYTICS UTILIZED**
None

**ENGAGEMENT TEAM**
VP/CAO – Daniel G. Sherman, MBA, CPA, CIA
Supervisor – Daniel G. Sherman, MBA, CPA, CIA
Lead – Casandra Wiley, CIA
Staff – Kathy Tran, CIA, CISA, CISSP, CFE, CGAP

**END OF FIELDWORK DATE**
January 9, 2024

**ISSUE DATE**
January 30, 2024

**REPORT DISTRIBUTION**
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