



# **PAYROLL / HUMAN RESOURCES AREA FOLLOW UP REVIEW**

Audit Report # 2009-007

**By:**

**The Office of Injured Employee Counsel**

**INTERNAL AUDIT DIVISION**

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The Office of Injured Employee Counsel (OIEC) was established March 1, 2006 as a result of House Bill 7 during the 79<sup>th</sup> Texas Legislature, Regular session, 2005. House Bill 7 abolished the Texas Workers' Compensation Commission (TWCC) and established the Division of Workers' Compensation (DWC) as a division within the Texas Department of Insurance (TDI). House Bill 7 also preserved and moved TWCC's Ombudsman Program to OIEC.

The mission of OIEC is to assist, educate, and advocate on behalf of the injured employees of Texas. OIEC fulfills its mission of assisting injured employees through its Ombudsman Program, Customer Service Division, and other outreach activities.

The purpose of this audit was to follow up on the findings and recommendations contained in the report "Payroll and Human Resources Areas" issued by Garza/Gonzalez & Associates on June 5, 2008, and determine whether policies, procedures, and directives are being followed and whether those procedures adequately reflect management's needs and requirements.

OIEC is administratively attached to TDI. A "Roles and Responsibilities" document establishes administrative assistance and services, including those related to payroll and human resources, to be provided by TDI in accordance with section 404.002 (c) of the Texas Labor Code. OIEC also employs a Staff Services Officer to assist with these functions with TDI.

## **Scope and Methodology**

The initial scope of the audit included a selection of a sample of eleven employees from the June 2009 listing of OIEC staff. The Personnel Files and Benefit Files for these employees were reviewed at TDI for inclusion of certain documents required by the Agency's policies and procedures.

These files were reviewed for inclusion of the following documents:

- Original Job Posting
- Personnel Action Form
- Job Description
- Original application, transcripts, and resumes
- Offer letter
- New hire paperwork
- Separation memo – for terminated employees
- Prior state employment verification forms
- Calculation sheets for prior state service
- Employee Manual acknowledgement form



- Performance evaluations and performance improvement plans
- Insurance multipurpose forms
- Documentation of extended leave
- Direct deposit information
- Form W-4, Employee's Withholding Allowance Certificate
- Form I-9, Employment Eligibility Verification
- Authorizations for insurance and other salary deductions
- Requests for flexible work schedule or compressed work week schedule

Two of the 11 employees selected for testing were part of the legislative transfer of employees establishing OIEC. The personnel files for these employees did not contain job postings, original job descriptions or applications for state employment. Each file did contain a memorandum explaining the legislative transfer and reason for not including the aforementioned forms.

The "Shadow Files" maintained by OIEC were also reviewed for the following:

- Employment verification
- Application Screening Matrix (for selection of candidates to be interviewed)
- Interview Questions and Scoring Sheet
- Forms recording "Observations" of Ombudsman, if applicable

In addition, a sample of 5 employees terminated between July 1, 2008 and June 30, 2009 was selected from the USPS report on terminated employees.

The scope also included the review and assessment of written procedures governing the payroll and human resources functions to determine whether those procedures adequately reflected management's needs and requirements, and whether the Agency had procedures in place to assure compliance with applicable provisions of its Employee Manual.

This project was conducted in accordance with generally accepted government auditing standards and the *Standards for the Professional Practice of Internal Auditing* as set forth by the Institute of Internal Auditors (IIA).



## **Overall Conclusion**

Current administrative procedures for new employees hired and the maintenance of Personnel Files, Benefits Files, and Termination Files by the TDI, Metro Human Resources Division (TDI-HR), and the Shadow Files maintained by OIEC are adequate to assure management that their needs and requirements are being met.

Additionally, controls assuring compliance with existing policies procedures are being followed. There has been a marked improvement in compliance with these policies and procedures since the date of the first review by Garza/Gonzalez & Associates. The TDI-HR area has developed a checklist to assure completeness of the Personnel File and the Benefits File for each employee.

Management has agreed with the findings and recommendations in this audit and developed a plan for corrective actions.

I would like to thank Brian White, Deputy Public Counsel, and Catherine Waltman, Staff Services Officer, as well as all the TDI, Metro Office Human Resources staff for their cooperation and assistance during the conduct of this audit.

## **Background Information on the Payroll & Human Resources Functions at OIEC and TDI-HR**

### Process for New Hires

OIEC's hiring authority consists of a supervisor, manager or director who completes a "Personnel Requisition Form", which is approved by the Deputy Public Counsel and routed to TDI-HR for budget approval.

Upon receipt of budget approval, a posting number (job #) is created and the job posting is developed using standardized job descriptions from the State Auditor's Office (SAO). The job posting includes the job title; opening date; application deadline; starting salary; job number; a general description of the job; and required and/or preferred qualifications, skills, and abilities. The job posting is available on the OIEC and Work In Texas websites. The job is generally posted for 10 business days or in some instances, until filled.

The hiring authority makes a recommendation to post jobs internally or externally and the Deputy Public Counsel has final approval authority.

The applications are received by TDI-HR, forwarded to OIEC, entered into the application tracking system, and maintained in a folder that is developed to hold all applications until the job posting is closed. TDI-HR provides applications to OIEC on an ongoing basis through the closing date for screening and interviews.



The hiring authority is responsible for screening the applications by completing a matrix to evaluate each applicant's qualifications. Interviews are conducted by two OIEC employees (i.e. the hiring authority and another employee), and an interview scoring sheet is completed to rank every applicant interviewed. Upon completion of the interview process, the hiring authority makes a recommendation for hire utilizing the personnel requisition form.

A hiring packet is compiled by OIEC, which contains the following documents:

- Personnel requisition
- Screening matrix
- Copies of all applications received for the position
- Interview scoring sheets
- Reference check forms

The hiring packet is received by the Staff Services Officer, who prepares and signs a Personnel Action Form (PAF), which is signed to denote approval by the Deputy Public Counsel, and the budgeting authority.

An offer letter is mailed to the individual being recommended for the position along with the new hire packet after a verbal offer has been made and accepted. A non-selection letter is mailed to those applicants interviewed that were not selected for the position.

Upon acceptance of employment by the recommended candidate, a request (CSR) is sent to TDI's Information Technology Division for a login ID and access to required computer applications.

TDI-HR assists the new hire in completing benefit forms, verifies prior State service records, and enters the information into required computer applications.

#### Personnel Files

All official personnel files are maintained by TDI-HR and include information such as the following:

- Original Job Posting
- Personnel Action Form
- Job Description
- Original application, transcripts and resumes
- Offer letter
- New hire paperwork
- Separation memo – for terminated employees
- Employment verification
- Prior state employment verification forms



- Calculation sheets for prior state service
- Employee manual acknowledgement form
- Performance evaluations and performance improvement plans

A checklist is used to ensure that all required documentation and forms are included in the personnel files.

TDI-HR also maintains a benefits file for each employee that includes information such as the following:

- Insurance multipurpose forms
- Documentation of extended leave
- Direct deposit information
- Form W-4, Employee's Withholding Allowance Certificate
- Form I-9, Employment Eligibility Verification
- Authorizations for insurance and other salary deductions
- Requests for flexible work schedule or compressed work week schedule

The Forms W-4 and I-9 are maintained separately from the benefits file due to the sensitive information included on those forms. All personnel related forms are stored in a secure storage room within TDI's HR offices, where access is limited to TDI-HR personnel.

#### Classification, Pay Schedules, and Types of Pay

The State Auditor's Office (SAO) provides a Job Class Index that lists all State of Texas job classifications, the related job description, and salary group. The salary group dictates the use of the proper salary schedule(s) compiled by the State Comptroller's Office. OIEC classifies employees accordingly and compensates classified employees utilizing the State Comptroller's Office salary schedules. The SAO performs classification compliance audits of different occupational groups across agencies to determine proper classification.

Other than regular, vacation, and sick leave pay, OIEC employees receive longevity and benefit replacement pay.

Longevity Pay is paid to full-time classified employees at a rate of \$20.00 for every two years of service as a State employee. The Uniform Statewide Payroll System (USPS) automatically computes the pay for each employee based on the effective date of employment as a State employee. Years of service transfer with the employee to other State agencies and a break in service as a State employee does not have an effect on longevity pay.



Benefit Replacement Pay (BRP) is paid to only those employees who have been continuously employed (an exception for 30 day or less break in service is granted) by the State of Texas since August 31, 1995. BRP is computed as 5.85% of the employee's compensation, but cannot exceed \$1,026.86 each calendar year. Eligible employees have the option of receiving the BRP in equal installments during the year.

### Evaluations

Supervisors are responsible for preparing a six-month evaluation plan for each new hire under their supervision. At the completion of six months, an evaluation is prepared and signed by the employee, supervisor, and director. A twelve-month evaluation plan is prepared subsequently with annual assessments thereafter.

Employees that have a current evaluation with no "needs improvement" scores, and at least one "exceeds" score, meet the criteria necessary to qualify for a merit increase. However, merit increases are subject to fiscal and budgetary constraints and are not automatic.

A Performance Improvement Plan (PIP) is prepared for those employees not meeting job expectations.

### Timekeeping

Full-time employees are paid on an exception basis and utilize the Automated Leave Accounting System (ALAS) developed and used by TDI to record all accrued and taken leave each month. Since it is an exception system, full-time employees are paid for regular work hours worked, unless leave times are reported. Part-time employees utilize timesheets to document time worked, which are approved by the employee's supervisor.

The employee manual requires employees to obtain prior approval to use their annual leave, overtime leave, State compensatory leave time, or holiday time. It is OIEC's practice to provide prior approval either verbally or via email. The ALAS automatically generates and sends an email to the employee's supervisor after the employee enters their leave request in the system. Upon approval by the supervisor, the ALAS then generates and sends the employee an email notifying him/her that the leave request was either approved or denied.

Once timesheets are approved, they are uploaded to USPS and are no longer available for viewing in ALAS.

TDI is responsible for updating the ALAS with leave activity for all employees. All employees have access to ALAS to view their leave balances.





### Payroll Processing and Payment

TDI generally processes payroll on behalf of OIEC by the 22<sup>nd</sup> of each month. Therefore OIEC provides TDI with a listing of any employees that incur leave without pay by the 22<sup>nd</sup> of each month so that TDI may adjust the employee's pay accordingly.

As a part of payroll processing, the following reports are generated from ALAS:

- Comments Report – captures the comments entered by employees, at their discretion, to provide explanations on leave earned or taken.
- Leave Without Pay Report – reflects those employees which have taken leave without pay.
- Unauthorized Requests Report – reflects those employees that take leave without obtaining prior supervisor approval; thus, the supervisor approves the timesheet as unauthorized requests.
- Backup Supervisors Certifying Their Own Time Report – reflects the names of supervisors that have approved their own time.
- Employees Taking Entire Month Off Report – provides a listing of employees that have been off for the entire month.

Once TDI completes the payroll processing function, OIEC is responsible for approving payroll in USPS, which is performed by the Associate Director of Operations, the Staff Services Officer, or the Executive Assistant. After OIEC has approved the payroll in USPS, changes can not be made.

### Sick Leave Pool

OIEC administers an Employee Sick Leave Pool (Pool) and the Deputy Public Counsel has been assigned as Administrator.

Eligibility – All employees, with the exception of the Public Counsel, are eligible to request leave from the Pool, if they meet the following criteria:

- The employee or a member of the immediate family has suffered a catastrophic injury or illness and the employee has exhausted all the leave time to which the employee is otherwise entitled;
- The employee is not receiving worker's compensation income benefits; and
- The employee has been employed with OIEC for at least 12 months.

Method of Contribution – Contributions are voluntary. Employees may contribute one or more days of sick leave to the Pool by completing the "Sick Leave Contribution Donation" form.

The Deputy Public Counsel has authorization to approve amounts transferred from the employee's account to the Pool. A contribution will not be accepted if, after the transfer of leave, the employee's sick leave balance will be below 80 hours for full time or 40



hours for part time employees. A terminating employee may contribute his/her full sick leave balance.

**Requesting Leave** – Employees who believe that their condition or immediate family member's condition meets the definition of a catastrophic injury or illness may request leave from the Pool, as follows:

- Complete the "Request for Leave from the Sick Leave Pool" form;
- Provide a statement from the licensed practitioner which gives the diagnosis, prognosis, treatment plan, and anticipated return to work date; and
- Complete Family Medical Leave Act forms as requested.

#### Job Termination

As a part of the termination process, TDI sends an exit packet, via email, to the separating employee, initiates an exit interview, notifies the Information Technology Department of the termination for removal from computer access, etc. In addition, the OIEC supervisor of a terminating employee is required to sign and date a separating checklist to denote collection of any State or OIEC property; to include, credit cards, keys, building passes, and employee badges.

#### Distribution of Earnings Statements and Warrants

Although the majority of OIEC employees receive payroll by means of direct deposit, there are several employees that receive warrants. Following is the process for distribution of pay:

- TDI's payroll officer receives the earnings statements and warrants via the courier from the State Comptroller's Office.
- The payroll officer places the earnings statements and warrants in sealed envelopes, which denotes the employee name and their assigned field office.
- The earnings statements and warrants are mailed, overnight, to the field offices.

Each employee receiving a warrant is required to sign the signature sheet to denote receipt, which is then returned to TDI's Human Resources Department.

#### Receipt of Payroll Reports

All payroll reports from the State Comptroller's Office are received by TDI since they are the agency responsible for maintaining OIEC's general ledger. These reports are provided to OIEC.



## **DETAILED ISSUES AND MANAGEMENT RESPONSES**

### **Issue 1 – Personnel File Missing Documents**

The personnel file for one employee did not contain the Form I-9, Employment Eligibility Verification.

Management utilizes personnel and benefits file checklists to assure inclusion of all required documentation. In this instance the checklist indicated inclusion of the missing Form I-9.

Compliance with the inclusion of the Form I-9, Employment Eligibility is substantial.

#### **Recommendations:**

Due to the critical nature of this form, it is recommended that the employee be requested to provide the form at this time.

#### **Management Response:**

Management agrees with the Internal Audit recommendation that the employee be required to provide a completed Form I-9. This is a critical document required of all OIEC new hires. The checklist that the Texas Department of Insurance (TDI) Human Resources Division (HR) uses to verify that all forms have been completed by the new hire indicated that the I-9 had been completed. The form was highly likely misfiled or otherwise misplaced after the employee's new hire paperwork was processed.

On July 27, 2009, HR contacted the employee and sent her a Form I-9 to complete. This completed form was returned to HR on August 6, 2009, by the employee and was placed in her personnel file.

OIEC is administratively attached to TDI. In accordance with section 404.002 (c) of the Texas Labor Code, a "Roles and Responsibilities" document establishes the administrative assistance and services, including those related to payroll and human resources, that TDI provides to OIEC. OIEC new hires are in-processed by TDI's HR Division and all documents relating to the new hire's paperwork are processed and maintained by HR staff. OIEC will continue to coordinate with HR as necessary to ensure that all required documents have been completed in a timely manner.



## **Issue 2 – Benefits Files Not Containing Authorizations for Certain Deductions**

The benefits file for one employee did not contain an Insurance Multipurpose Form or authorization for insurance and other voluntary deductions. This employee was in the group of employees initially transferred by the legislature when OIEC was created.

The benefits file for another employee contained an unsigned TexSaver Form 401 (k). This employee was recently transferred from TDI-DWC to OIEC, and the TexSaver Form 401 (k) may not be applicable.

### **Recommendations:**

Compliance with the inclusion with both the Insurance Multipurpose Form and the TexSaver Form 401 (k) is substantial and there are no recommendations in connection with this finding.

### **Management Response:**

Management notes this was not an audit finding and no recommendation was made. However, management provides this background information on the processing of employee benefits.

State employees may go on-line with the Employees Retirement System (ERS) and make enrollment and other insurance changes without completing an Insurance Multipurpose Form. TDI's Benefits Coordinator verified that she does not receive paper forms for employees who make changes on-line with ERS. These insurance changes would not be documented in the OIEC benefits file for the employee. Thus, it is customary for there to be no Insurance Multipurpose Form in an employee's benefits file for the changes made.

TDI's Benefits Coordinator also confirmed that since the instant employee was a direct transfer from TDI to OIEC, the TexSaver Form 401 (k) did not need to be completed. This form, along with all other new hire documents, is mailed to new OIEC employees. However, in the instant employee's case, the form was not applicable because he was an interagency transfer.

In both of these instances outlined above, no further action is needed.



### **Issue 3 – Benefits File Form ER-08, AWOL (Flex/Compressed) Employee Request Form**

Several employees benefits files reviewed did not contain Form ER-08 AWOL (Flex/Compressed) Employee Request Form. In these instances the reviewer could not determine whether the employee had requested a schedule other than customary office hours.

For the personnel files which did not contain forms indicating whether employees had requested flexible work schedules or compressed work week schedules (AWOL Flex/Compressed Employee Request Form), the employees' schedules were confirmed directly with the staff member. Each of these employees confirmed their work week to be Monday through Friday, with customary office hours.

#### **Recommendations:**

If only those employees electing flexible work schedules or compressed work week schedules are required to complete the AWOL Flex/Compressed Employee Request Form, the reviewer has no way of determining whether all forms are included. Since the form provides for selection of a regular work week (Monday through Friday, eight hours per day), it should be required from every employee.

#### **Management Response:**

Management appreciates and agrees with the Internal Audit recommendation that all OIEC employees complete the ER-08 AWOL (Flex/Compressed) Employee Request Form. By having a form completed by every employee, management will be able to determine that all forms have been included and will have written documentation of work schedules for all employees. Additionally, this form will be completed by all OIEC new hires in the future to ensure that each employee has a form on file.

On August 7, 2009, the Deputy Public Counsel sent an email and attached the Form ER-08 to all OIEC employees requiring that they complete and submit the form to the Staff Services Coordinator no later than August 31, 2009. These completed forms will be placed in their respective OIEC personnel files.

The Staff Services Coordinator will notify the Deputy Public Counsel after the deadline date of any outstanding forms.

