



# Internal Audit Report

---

Human Resources Procedures Management  
TxDOT Office of Internal Audit

### Objective

Evaluation of compliance, control design and process mapping for key Human Resource functions.

### Opinion

Based on the audit scope areas reviewed, control mechanisms are effective and substantially address risk factors and exposures considered significant relative to impacting operational execution and compliance. The organization's system of internal controls provides reasonable assurance that most key goals and objectives will be achieved despite significant control gap corrections and improvement opportunities identified. Control gap corrections and improvement opportunities identified are likely to impact the achievement of the organization's business/control objectives, but management has agreed to corrective action plans to address the relevant risks within 6 months.

<b>Overall Engagement Assessment</b>	<b>Satisfactory</b>
--------------------------------------	---------------------

Finding				
	Title	Control Design	Operating Effectiveness	Rating
<b>Finding 1</b>	Updating Human Resource Policies	x	x	<b>Satisfactory</b>

Management concurs with the above finding and prepared management action plans to address deficiencies.

### Control Environment

Staff members in the Human Resource Division (HRD) recognize the risks inherent in administering TxDOT's HR functions and have a positive tone towards carrying out the various functions. In addition, management at TxDOT recognizes the division's importance and the overall impact it has on the department's core business functions.

### Summary Results

Finding	Scope Area	Evidence
1	Statutory Compliance	Four federal and one state statutory references were not found in the TxDOT HR Policy Manual

### Audit Scope

The scope of the audit work focused on activities in the HRD, specifically policies and procedures associated with employee onboarding, separation of employment and disciplinary actions of employees. Audit coverage included an evaluation of compliance with human resource statutory and regulatory requirements.

The audit was performed by Veronica Chacon, Catherine Edwards, Timothy Owen and Jack Timmins (Engagement Lead). The audit was conducted during the period from January 13, 2014 to March 21, 2014.

## Methodology

The methodology used to complete the objectives of this audit included the following:

- Review of TxDOT's Human Resource Policy Manual (June 2013)
- Review of the Texas Human Resources Management Statutes Inventory (THRMSI) developed by the State Auditor's Office (SAO) (September 2013 and October 2011)
- Review of internal documents including organization charts and internal memos
- Evaluation of risks and controls associated with HR procedures management
- Review flowcharts of existing processes and planned modifications HR procedures
- Inquiry and interview of key personnel and HRD subject matter experts (SME)
- Test to determine statutory and regulatory compliance in specific HR functions

The THRMSI pertaining to employee on-boarding, separation of employment, and disciplinary actions of employees was used to cross reference with the revised TxDOT Human Resources Manual (June 2013). Ninety-two statutory references were tested from the THRMSI including 45 for employee onboarding, 22 for separation of employment and 25 for disciplinary actions of employees.

## Background

This report is prepared for the Texas Transportation Commission, TxDOT Administration and Management. The report presents the results of the Human Resources Procedures Management Audit which was conducted as part of the Fiscal Year 2014 Audit Plan.

The HRD has undergone some significant changes recently, beginning with the revision of the TxDOT HR policy manual in June 2013. TxDOT also made the decision to move to an Enterprise Resource Planning (ERP) solution which integrates business processes and practices with technology to accomplish specific objectives. HR functions are included in the first phase of the rollout of the department's ERP project.

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards* and in conformance with the *International Standards for the Professional Practice of Internal Auditing*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Recommendations to mitigate risks identified were provided to management during the engagement to assist in the formulation of the management action plans included in this report. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The Office of Internal Audit transitioned to Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework version 2013 in December 2013.

A defined set of control objectives was utilized to focus on operational and compliance goals for the identified scope areas. Our audit opinion is an assessment of the health of the overall control environment based on (1) the effectiveness of the enterprise risk management activities throughout the audit period and (2) the degree to which the defined control objectives were being met. Our audit opinion is not a guarantee against operational sub-optimization or non-compliance, particularly in areas not included in the scope of this audit.

## Detailed Findings and Management Action Plans (MAP)

### Finding No. 1: Updating Human Resource Policies

#### Condition

Specific statutory references associated with substance abuse, pregnancy protection, and criminal histories have not been incorporated into the current Human Resources (HR) Policy Manual.

The Human Resources Division (HRD) does not have a comprehensive methodology to ensure that statutory updates are incorporated into the Human Capital Management (HCM) component of the pending Enterprise Resource Planning (ERP) system. While HRD has a process in place to review proposed and approved statutory changes to state and federal regulations, this process has not been fully implemented to ensure that required changes are incorporated into the new HCM system.

#### Effect/Potential Impact

Penalties for non-compliance with a substance abuse policy that meets federal regulations include civil penalties up to \$5,000 for each violation. Failure to include statutorily required policies carries a risk of loss of federal funding, fines and penalties issued by federal and state governing bodies, or possible litigation. In addition, disclosure of criminal history information can result in criminal charges for an individual who improperly discloses protected information.

#### Criteria

49 CFR Part 382, Section 382.601 (USDOT- Federal Motor Carrier Safety Administration) outlines an employer's obligation to promulgate a policy on the misuse of alcohol and use of controlled substances.

41 USC Sections 701-707 – Drug-Free Workplace outlines requirements for grant recipients and contractors.

46 CFR: Shipping, Part 16 – Chemical Testing, Subpart (B) outlines the responsibilities of an employer to drug test employees with vessel and commercial responsibilities to include:

- implementation of chemical testing programs
- pre-employment testing requirements
- employee assistance programs

29 CFR: Labor, Part 1604 – Pregnancy Discrimination Act, Public Law 95-555, 92 Stat. 2076(1978) outline an employer's responsibilities related to pregnancy to include:

- payment of benefits or insurance programs
- treatment of employees
- hiring practices

Texas Government Code Chapter 411.084, 411.085 and 411.1405 outline an employer's and employee's responsibilities pertaining to criminal histories including:

- restrictions on access to criminal histories
- penalties for disclosure of information
- destruction of records

The State Auditor's Office (SAO) publishes the Texas Human Resources Management Statutes Inventory (THRMSI), which is an inventory of state and federal statutes, case laws and Office of the Attorney General and SAO Opinions that affect state agencies. The SAO updates the THRMSI after each Texas Legislative Session for the upcoming bi-annum. The current edition used in our review is for FY 2014-2015. The THRMSI includes statutes and regulations from the Code of Federal Regulations, Texas Government Code, Texas Labor Code, Texas Occupations Code, Texas Insurance Code, as well as others.

### **Cause**

In June 2013, the Texas Department of Transportation (TxDOT) released a revised Human Resource Manual moving from a detailed policy/procedure manual to a more streamlined policy manual. Several policies related to onboarding and disciplinary actions were removed from the manual that impacted federal and state statutory references previously found in the TxDOT HR manual.

HRD did not utilize the most recent SAO THRMSI to determine statutory compliance for the pending implementation of the HCM system.

### **Evidence**

Federal references, three of which were related to Substance Abuse and one related to the Pregnancy Protection Act, were not specifically incorporated into the current Human Resources Policy Manual. In addition, the current policy manual has a statutory provision for obtaining criminal histories for final candidates, but does not address access, disclosure, or destruction of these records.

HRD staff confirmed that they had not obtained assurances that the baseline product TxDOT obtained from the Texas Comptroller of Public Accounts (CPA) contained current statutory/regulatory requirements. In addition, TxDOT did not conduct an independent verification to ensure that the HCM component of ERP was up to date with the most recent THRMSI provisions.

### **Management Action Plan (MAP):**

#### **MAP Owners:**

Patrick Johnson, Director, Human Resources Division  
Christy Bird, HR Management Analyst

#### **MAP 1.1:**

We will incorporate all missing applicable statutes and regulatory requirements into our policy manual. We will send to legal for review and concurrence, and we will then submit to Administration for review and approval to publish corrected policies.

#### **Completion Date:**

August 15, 2014

**MAP Owners:**

Patrick Johnson, Director, Human Resources Division  
Christy Bird, HR Management Analyst  
David Houston, ERP HCM Lead

**MAP 1.2:**

We will monitor on an annual basis any statute and regulatory requirement changes. We will maintain a log of our annual check memos, noting who checked the statutes, when they were checked, and if any changes were found. The Division Director will also co-sign the memo confirming the check was completed. If changes were found:

- We will incorporate, if applicable, to our policy manual. We will then send to the Offices of General Counsel and Internal Audit for review and concurrence, and we will then submit to Administration for review and approval to publish corrected policies.
- We will circulate the memo to our ERP HCM Lead and Technical Lead to ensure that the change is captured within the HCM module. We will require the memo to be returned to our HR Management Analyst with acknowledgement that the system is working properly with the new change(s) in place.

**MAP 1.3:**

We will contact the Texas Comptroller of Public Accounts (“CPA”) and obtain documentation regarding their assurance that the baseline product TxDOT obtained from them contains current statutory/regulatory requirements from the 2014-2015 THRMSI.

**Completion Date:**

August 15, 2014

## Summary Results Based on Enterprise Risk Management Framework

Audit Results Dashboard		
Human Resources Procedures Management		
Business Objectives (Reporting, Operational, Compliance)		Scope Areas Evaluated
		O, C
ERM Component	Control Activities	Statutory Compliance
Control Environment	Organizational Tone	
	Planning	1
	Forecasting	
	Goal-Setting	
	Cost-Benefit Analysis	
Risk Assessment	Business Continuity	
	Evaluations/Analysis	
	Management Action Plans	
Control Activities	Policies/Procedure Development & Maintenance	1
	Approvals/Authorizations	
	Supporting Evidence/Records Availability	
	Segregation of Duties	
	Safeguarding Assets	
Information & Communication	Information Classification	
	Information Input	
	Information Processing	
	Output/Reporting and Messaging	
Monitoring	Exception Reporting Review	
	Reconciliations/Root-Cause Analysis	1
	Peer Reviews	
	Management Representations	
Scope Area Assessment		

Rating Assessment Grid	Exemplary	Satisfactory	Needs Improvement	Unsatisfactory
------------------------	-----------	--------------	-------------------	----------------

### Closing Comments

The results of this audit were discussed with the Human Resources Division Director and the Enterprise Resource Planning Office Director. The audit team would like to express its appreciation to the employees of the Human Resources Division and the Enterprise Resource Planning Office for their cooperation throughout the audit.