**Seattle Public Schools
The Office of Internal Audit**

**Internal Audit Report
Human Resources**

September 1, 2010 through June 30, 2012

Issue Date: September 11, 2012

Executive Summary

Background Information

Human Resources Objectives and Data

The Human Resources Department consists of 33.5 full time employees and is located at the John Stanford Center of Education Excellence. Human Resources' primary function is to support the district in its academic achievement by recruiting and retaining high quality, diverse staff. They also offer resources and support to all District staff for the employment life cycle including recruitment, on boarding, employee performance and evaluation, labor relations, and retirement. As of July 15, 2012, the District spent approximately $463,127,000 in salary and benefits for 2011- 2012 school year.

Human Resources Management and Changes in Leadership

The Human Resources Department has endured 12 different changes to the top leadership position during the last 14 years. This alarming rate of turnover in a key leadership position increases the risk that responsibilities and expectations are not clearly understood or aligned with District initiatives. It also increases the risk that institutional knowledge has left the District with these previous employees, and that current staff are unaware of key internal control requirements. Currently, the Human Resources Department is in the process of reorganization. Three new positions have been created, including a Director of Operations/Recruitment, a Director of Labor/Employee Relations, and a Human Resources Operations Case Manager. There is also anticipation that some functions will be reconfigured and moved out of the core human resources functionality.

Human Resources Structure and Satellite Locations

In addition to the main Human Resources Department, there are two satellite locations (Operations and Child Nutrition Services) that perform human resource functions. These satellite locations have higher turnover rates compared to other District departments, and have an increased need for a quick turnaround time when hiring new staff. Due to this urgency, Facilities Operations and Child Nutrition Services have parallel human resource processes for recruitment, on boarding, and employee performance and evaluations. Labor relations and retirement are central functions under the core Human Resources and Payroll Departments.

Current Human Resources Initiatives

The Human Resource Department is in the process of identifying its short-term improvements and its long-term improvements. Currently short term improvements include ongoing efforts of human resources staff to improve and document all processes in order to provide better customer service. Initiatives undertaken for the short term are optimization of screening capabilities of NeoGov.com (District's online application system), improving the hourly and administrative hiring process, and implementing an evaluation process that provides support to school administrators. The long-range goals include the implementation of the case manager model and of an automation process for "on-boarding" and principal access to data. (This paragraph is based on the information provided by Human Resources).

<u>Human Resources Compliance Requirements</u>
Human Resources related policies can be found under School Board Policies - Series 5000. These policies are applicable not just to the central Human Resources Department, but are applicable to the Facilities Operations and Child Nutrition Services functions as well. Our audit procedures included all functions related to human resources, including the centralized Human Resources Department and the satellite locations.

Human Resources is subject to numerous compliance requirements due to key Federal and State employment legislations. The compliance requirements should be continuously monitored, and include:

- Age Discrimination in Employment Act (ADEA)
- Americans with Disabilities Act (ADA)
- Civil Rights Act (Title VII)
- Consolidated Omnibus Budget Reconciliation Act (COBRA)
- Employee Retirement Income Security Act (ERISA)
- Equal Pay Act, Fair Credit Reporting Act and Fair Credit and Accurate Credit Transactions Act of 2003
- Family and Medical Leave Act (FMLA)
- Health Insurance Portability and Accountability Act (HIPPA)
- Immigration Reform Control ACT (IRCA)
- Occupational Safety and Health Act (OSHA)
- Pregnancy Discrimination Act (PDA)
- Rehabilitation Act
- Uniformed Services Employment and Re-employment Rights Act (USERRA)
- RCW 28A and WAC 392
- Equal Employment Opportunity Commission

Compliance with these requirements is legally essential to prevent unnecessary fines and litigation.

Roles and Responsibilities

This audit was completed as part of the *Annual Risk Assessment and Audit Plan* approved by the Audit and Finance Committee on October 11, 2011. District management has the primary responsibility to establish, implement, and monitor internal controls. Internal Audit's function is to assess and test those controls in order to provide reasonable assurance that the controls are adequate and operating effectively. We conducted the audit using due professional care, and we believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

Audit Objectives

To evaluate compliance and internal controls in the following areas:

- HR Organization
  To determine whether there are defined roles, responsibilities, operating procedures, and communication protocols that contribute to an efficient and effective Human Resources function.

- Employment Planning
  To review the employee hiring process and determine if it is in compliance with Equal Employment Opportunity requirements, including the hiring of hourly employees and employees hired by the satellite locations.

- Employee Evaluations
  To determine whether employee appraisals are completed in a timely manner to maintain the District's quality of service and adhere to State compliance requirements.

- Payroll Administration
  To assess the security of sensitive employee payroll data within Human Resources, Operations, and Child Nutrition Services.

- Personnel Files
  To test employee personnel files and ensure that they are secure and updated appropriately.

Scope of the Audit

September 1, 2010 through June 30, 2012

Audit Approach and Methodology

To achieve the audit objectives, we performed the following procedures:

- Planned the audit in cooperation with Human Resources, Facilities Operations' human resources function, Child Nutrition Services' human resources function, the Department of Technology Services, and Legal to ensure that we had a strong understanding of the District's compliance requirements.
- Interviewed Human Resources staff knowledgeable of each objective area.
- Analyzed available data to corroborate the information obtained.
- Reviewed the District's internal compliance requirements, researched OSPI requirements, evaluated State and Federal requirements related to Human Resources, and compared the results with the District's current policies and procedures.

- Conducted a detailed risk assessment, including an analysis of inherent and residual risks to determine our areas of focus. Each function within Human Resources was evaluated to determine which areas present the greatest risk to the District. Those areas deemed to be the most risky were included in our final audit plan, which led us to our audit objectives. Those areas not included in the objectives for this engagement will be re-evaluated during future audits of this area.
- Performed detailed tests of the objective areas to support our conclusions.

Conclusion

We commend the Human Resources Department for progressively working towards positive change and striving to establish a structured function. During the course of our audit we noted many initiatives and improvements being implemented within Human Resources; however, we also noted specific issues with each of the audit objectives. Our concerns are detailed in the Findings and Recommendations section of this report, and are intended to improve internal controls, compliance, and accountability.

We made Human Resources leadership and staff aware of our findings during the course of the audit, and they have already made efforts towards improvement. We extend our appreciation to the staff within the Human Resources Department, and the satellite locations for their assistance and cooperation during the course of the audit.

Andrew Medina

Andrew Medina, CPA, CFE
Director, Office of Internal Audit

Findings and Recommendations

1) Communications, Policies, and Procedures

We noted that the organizational design of Human Resources has resulted in poor communication across the organization. As a result, managers and employees are often unsure of their roles and responsibilities, and procedures are frequently reinvented by the replacing employee. This situation reduces accountability, and increases the risk of noncompliance with State and Federal requirements.

There are insufficient operating procedures to ensure clear processes throughout the human resources function. Specifically, we noted that:

- There is no handbook to guide Human Resources employees on the procedures they are expected to follow.
- There is no employee handbook to guide all District employees on important policies and procedures, such as sexual harassment, discrimination, ethics, and internet usage.
- There is no clear channel of communication within Human Resources to share important information such as changes to compliance requirements, policies and procedures, and industry best practices.
- There is a lack of accountability in monitoring legislative updates and compliance requirements specific to the human resources function.
- Training is not provided to employees in the satellite locations on the proper procedures and compliance requirements related to the human resources functions they are performing.
- There are no procedures relating to the hiring of site-based hourly employees, resulting in inefficiencies in the Human Resources Department and its satellite functions.

Recommendation

We recommend that Human Resources management:

- Establish a framework of policies and procedures for supporting the internal processes. (i.e. Human Resources handbook, hourly hiring procedures, etc)
- Create a central repository of employee responsibility policies, such as sexual harassment, discrimination, ethics, and internet usage.
- Develop a clear channel of communication so that future productivity strains can be avoided.
- Designate a staff member to track and monitor all Human Resources related compliance requirements, who will be responsible for ensuring that any changes to the compliance requirements or industry best practices are communicated to the remaining staff.
- Brainstorm and exchange ideas with the satellite functions during the early stages of writing procedures, so that best practices of each process can be shared and adopted in the organization as a whole.
- Train satellite locations to be aware of human resources compliance requirements, or explore having one centralized human resources function.

Management Response

The human resources department is in agreement that there have been insufficient policies and procedures to ensure clear processes are in place throughout the human resources function.

The following outlines the human resource department response:

1. *HR will develop a handbook, which will include policies and procedures to support effective internal process.*
2. *HR will develop policies and procedures that address areas of employee responsibility such as sexual harassment, discrimination, ethics, and internet usage.*
3. *HR will develop and implement a clear channel of communication in order to improve industry best practices, understand compliance requirements, and increase the timely response to human resource functions.*
4. *HR will designate a staff member who will track compliance requirements and monitor legislative updates. Additionally, a system to share important updates will be implemented in the department.*
5. *HR will develop and implement a system to ensure satellite locations are informed and involved in the implementation of best practices regarding procedures and compliance requirements.*
6. *HR will develop procedures for the hiring of site-based hourly employees.*

2) Employee Evaluations

The Human Resources Department did not have an effective mechanism to consolidate and track whether evaluations were completed and submitted on time. The scope of our evaluation testing was the 2010-2011 academic year. Our procedures revealed that 24% of the employees tested did not have an evaluation on file. The evaluations that were on file did not contain a date-received stamp or other form of evidence to substantiate that they were submitted to Human Resources by their prescribed due date.

The Revised Code of Washington (RCW 28A.150.230) requires that all staff be evaluated on their performance on an annual basis. Annual evaluations are also required by School Board Policy 5240, which states, "The proper evaluation of staff is an integral part in improving student achievement and the efficiency of district operations."

Recommendation

We recommend that management take corrective action to ensure that an annual evaluation is performed on each employee and submitted to Human Resources by the prescribed deadline.

Management Response

The human resources department is in agreement that there have been ineffective mechanisms in place to consolidate and track evaluations in order to ensure they are completed and on time.

The following outlines the human resource department response:

1. *HR will develop and implement a system to ensure each employee is evaluated within the prescribed deadline.*
2. *HR will review the evaluation process to ensure school and department administrators are aware of their responsibility to evaluate each employee.*

Audit and Finance Committee Comments

During the Audit and Finance Committee meeting on September 11, 2012, the Committee requested that internal audit also evaluate the quality of the completed evaluations. Specifically, do the evaluations contain quality assessments, or are they turned in with minimal comments to simply be categorized as complete? As a result, the Office of Internal Audit will conduct a special engagement to accommodate this request.

3) Employee Data and Payroll Administration

During our test work of roles and authorities in the SAP HR Module, we noted that every member in Human Resources (including the satellite locations) and Payroll Department has access to the Personnel Administrator role. This role not only has authority to change employees' private information, but it also impacts employee payroll. Specifically, the role allows changes to be made to items such as an employee start date, pay grade, and qualifications.

We observed that the transactions associated with the Personnel Administrator role have not changed since the system was first implemented. The degree of access to the data under the Personnel Administrator role increases the risk of errors and abuse.

Recommendation

We recommend that management review all the transactions allowed with the Personnel Administrator role, within the SAP HR Module, and limit access to sensitive transactions. View only roles should be created for those employees whose job descriptions do not require them to edit sensitive employee data.

We also recommend that management monitor changes to sensitive employee data to ensure that all transactions are appropriate, and that no one person can individually create or alter employee information. Segregation of roles and duties will enable the department to establish a controlled structure that will assist the District in preventing fraud and detecting errors.

Management Response

The human resources department is in agreement, allowing access to Personnel Information to every member of Human Resources, HR Satellite locations and the Payroll Department increases the risk of errors and abuse.

1. *HR will review transactions allowed with the Personnel Administrator role, within the SAP HR Module.*
2. *HR will create limited access to sensitive transactions to those who need to edit sensitive employee data.*

4) Personnel Files

There are two kinds of employee files; personnel files and medical files. The personnel files contain items such as evaluations, certifications, job application, and supporting documents to bring the employee on board. Medical files are limited to an employee's medical and insurance data, and are considered highly confidential. Our audit procedures were limited to the contents of the personnel files.

We noted that the personnel files contain personal information, such as copies of social security cards and driver's licenses, and that appropriate safeguards are not in place to protect employees' personal information. There are no policies and procedures for the file room to safeguard and control the contents of employee's personal information.

In addition to the concerns specific to the personnel files, we also noted that the District does not have an entity-wide policy or procedure regarding the security of employees' personal information. There is potential legal, financial, and reputational risk for the District if employees' personal information is compromised at any level.

Recommendation

We recommend that management continue its efforts to clean up and organize employee files. In addition to ensuring compliance with Federal and State requirements regarding the contents of employee files, special attention should be given to establishing accountability over employee personnel files and ensuring that personal information is not compromised at any level. We also recommend that the District create a written policy or procedure to protect employees' private information, including restrictions on access and storage of sensitive information.

Management Response

The human resources department is in agreement both personnel and medical files need to be in compliance with Federal and State requirements regarding the contents of employee files.

> 1. *HR will develop and create written policies and procedures to protect employees' private information.*
> 2. *HR will review employee personnel and medical files access, storage and organization.*
> 3. *HR will evaluate and create a plan that will provided adequate staffing in the file room.*