

MEMORANDUM

TO: Vivian Kardow
Vice President and Chief Human Resource Officer

FROM: Mark E. Stacey, FCA, CIA, CISA
Interim Vice President, Audit Services

DATE: June 10, 2020

SUBJECT: Human Resources Operational Audit
Engagement Number 2020-011

Attached is the final audit report regarding the Human Resources Operational Audit. This audit will be presented at the next Institutional Audit Committee meeting.

Additionally, please find attached Audit Services audit recommendation follow up policy. Each of the recommendations is classified by type at the end of its identifying number: System Priority (SP), Risk Mitigation (R), or Process Improvement (P). As you will note in the policy, the classification of the recommendation determines the frequency of our follow up. All follow up results are reported quarterly to the Institutional Audit Committee.

Thank you for your cooperation and assistance during this review. If you have any questions or comments regarding the audit or the follow-up process, please feel free to contact me at (409) 747-3277.

c: Ben G. Raimer, MD
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The University of Texas Medical Branch
Audit Services

Audit Report

Human Resources Operational Audit

Engagement Number 2020-011

June 2020

The University of Texas Medical Branch
Audit Services
301 University Boulevard, Suite 4.100
Galveston, Texas 77555-0150

Human Resources Operational Audit **Engagement Number: 2020-011**

Background

The University of Texas Medical Branch (UTMB Health's) Human Resources (HR) department is an integrated support function that provides and manages services for the recruitment, development and training of employees throughout the Institution. This skill development activity is critical to UTMB Health's mission and achievement of its objectives. Such processes are also required to operate within a regulatory framework including the federal Fair Labor Standards Act (FLSA), Texas State Law, the University of Texas System Board of Regents Rules and Regulations, and institutional policies and procedures.

In audit planning Audit Services with HR leadership completed an assessment of current institutional risks and concerns related to recruitment, development and training activities. Due to potential regulatory exposure and risk of financial penalty it was determined the FY20 HR Operations audit engagement should focus in two areas: compliance with FLSA exemption status classification processes, and completion of new employee training.

Audit Objectives

The primary objectives of this audit are to assess the efficiency and effectiveness of the operational processes related to FLSA exemption status classifications and to evaluate monitoring compliance for new employee training modules.

Scope of Work and Methodology

Our audit methodology included assessment of the related processes via interviews with key Human Resources, Compensation and Office of Compliance (OIC) personnel. Further we completed an assessment of related institutional policies and procedures, and performed detail testing for a representative sample of employees.

The scope of testing for the FLSA exemption status engagement included employees whose job change in calendar year (CY19) resulted in a change in FLSA status. The scope for the required training for new employees included employees who were hired in CY19 with a paid full-time appointment.

The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* as promulgated by the Institute of Internal Auditors.

Audit Results

FLSA Exemption Status Classification

UTMB Health's job descriptions are assigned a status of exempt or non-exempt according to guidelines set by the FLSA. Exempt employees are paid on a salary basis and must have exempt job duties. Non-exempt employees are paid on an hourly basis and must be paid for every hour worked including those over 40 paid at an overtime rate. Processes are in place to manage FLSA compliance, however instances where an employee moves from an exempt to a non-exempt position or vice versa are particularly vulnerable to discrepancies resulting from failure to update exemption status in all databases and on the job description. It is important that all employees are correctly classified both in PeopleSoft Human Capital Management (HCM) and for Kronos Timekeeping.

To assess this risk Audit Services selected a sample of 50 employees who had an exemption status change in CY19 and performed a three-way match between HCM, Kronos and listed job descriptions to ensure FLSA exemption statuses were updated correctly. Our test results

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indicated 48 of 50 (96%) changes matched in all three elements. In one mismatch a position was reclassified from exempt to non-exempt in October 2019; however, the job description had not been updated as of April 2020. In the second instance the position change from administrative exempt to executive exempt was not reflected in HCM. Improper classification or incorrect job descriptions places UTMB Health at risk of non-compliance as well as the potential under/overpayment of wages.

Recommendation 2020-011-001-PM:

Vice President and Chief Human Resource Officer should develop and implement a checklist of items to review when a relevant change is made to a job position, including but not limited to, a detailed review of job descriptions.

Management's Response:

Human Resources will develop a workflow, utilizing existing webform and database tools to document and route changes and reviews of the job descriptions between its various departments. The webform itself will be the internal checklist. It will include branched logic triggering key steps to update impacted components that are currently used to maintain the content and definition of the job within UTMB.

A process such as this will allow HR to integrate all systems currently used to document the specifications of a job, its pricing, exemption status, etc. This integration is critical to ensure all systems remain in sync.

Implementation Date:

September 30, 2020

The HR and Payroll departments utilize a weekly Mismatch Report to monitor discrepancies between HCM and Kronos. Discrepancies due to a change in status to/from exempt to non-exempt are corrected immediately; however, discrepancies due to a mismatch in the "type" of exempt status – executive, professional, or administrative – are currently corrected quarterly. Although this type of discrepancy will likely not result in an improper payment, there is an opportunity to improve efficiency and effectiveness by correcting all discrepancies on the Mismatch Report at the same time.

Recommendation 2020-011-002-PL:

Vice President and Chief Human Resource Officer should implement a process to correct all exemption status variations on the weekly mismatch report as soon as they are identified.

Management's Response:

As stated above, corrections to the Mismatch Report results for exemption status (non-exempt/exempt) are addressed immediately in HCM on all relevant tables. HR Compensation has moved the quarterly schedule of exemption type to weekly and follows a similar process to correct mismatches on all relevant tables and records.

Implementation Date:

June 30, 2020

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To further assess the accuracy of position classification, Audit Services interviewed a sample of 5 exempt and 5 non-exempt employees to assess whether their actual job responsibilities matched their respective position descriptions. Variances were identified for two employees; however, the variances appeared to be due to timing issues in the roll-out of certain project related duties.

Required Training for New Employees

UTMB Health's Institutional Handbook of Operating Procedures Policy 03.05.05 *Required Training for the UTMB Workforce and UTMB Students* requires faculty, staff and select contractors to complete General Compliance training within 30 days of their hire date. Additional training for new employees is assigned to them based upon their respective job roles, in particular, direct patient care employees have specific training requirements stipulated by outside regulatory institutions.

General Compliance Training:

The Office of Institutional Compliance (OIC) manually monitors general compliance training completion on a quarterly basis utilizing data abstracted from the Oracle "Taleo Learn" (Taleo) application. For overdue training emails are sent to employees [and their supervisors] reminding them that failure to complete General Compliance training before the end of the fiscal year will result in suspension without pay until courses are completed.

To assess UTMB Health's control process for monitoring new employees' completion of General Compliance training and other required training, Audit Services selected a sample of 50 paid full-time employees hired during CY19 for review. Four of the 50 employees tested did not complete General Compliance training within their first 30 days; however, all four subsequently completed the training by the end of the fiscal year (8/31/19).

The current quarterly manual review does not ensure the timely completion of required compliance training within 30 days as stipulated by policy. There is an opportunity to improve the automation and timeliness of this control.

Other Required Training:

The Taleo application has the functionality to automatically notify supervisors and employees when training is overdue; however, dissatisfaction with the design of this feature resulted in its discontinuance. While Supervisors remain responsible for monitoring training completion, there is currently no systematic review process in effect for other required training.

For the same 50 employees in our sample, they were assigned an additional 272 training courses in CY19, of which 42 were not completed as of April 2020. Given the occurrence of incomplete coursework including for direct patient care employees there is a the need for periodic review.

Overall, the poor timeliness and lack of monitoring controls surrounding required training exposes the institution to regulatory risks as well as risks related to patient and employee safety, protection of assets, etc.

Recommendation 2020-011-003-RM:

Vice President and Chief Human Resources Officer should work with Oracle representatives to design and implement an effective Taleo alert system for supervisors and employees to ensure timely completion of all required coursework.

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Both issues as described are known to have multiple root causes. The most common and most glaring is due to the Taleo Learn tool-set related to defining employee groups. Groups are essentially a list of employees in jobs requiring particular set of course assignments. The solution, and one adopted by most organizations trying to move to cloud-based solutions, is to create an extract, transform, and load (ETL) approach to defining groups, due dates, workflow, and notifications.

HR has formed a workgroup to design and extract all required data elements into our Azure database environment. This environment has a more robust tool-set to more precisely define smarter groupings of employees and timelines for completion of assigned training. The resulting group will then be loaded into the Taleo Learn environment. A pilot of 2-3 groups, (those requiring the greatest unique training assignments) will go live on September 1st, 2020 with continuing efforts until August 31st, 2021. A subset of this pilot will focus on notification, tracking and report outs to leadership on timeliness of new hire course completion.

Implementation Date:

September 30, 2020

Recommendation 2020-011-004-RM:

Vice President and Chief Human Resources Officer should develop and implement a periodic review process for supervisors to ensure timely completion of all required coursework.

Management's Response:

See Response 2020-011-003-RM

Implementation Date:

September 30, 2020

Conclusion

Audit Services review of FLSA exemption status classification process and required training compliance for new employees identified several opportunities to strengthen the overall control environment through improvement in systems and monitoring processes.

We greatly appreciate the assistance provided by the Human Resources staff and hope that the information presented in our report is beneficial.



Mark E. Stacey, FCA, CISA, CIA
Interim Vice President, Audit Services



Barbara L. Winburn
Project Manager