



## **City Auditor's Office**

# **Human Resources Department Audit**

**Report Issued: February 23, 2016**

Audit Report No. 15 A-2



TO: Mayor and Council Members

THRU: Margaret L. Krym, City Auditor 

FROM: Oscar B. Claudio, Assistant City Auditor 

DATE: February 23, 2016

SUBJECT: Audit of the Human Resources Department

The Human Resources Department audit resulted in eight findings and three reportable conditions. Accordingly, the audit report provided recommendations and suggestions to address these issues. Overall, the audit disclosed that the Human Resources Department had implemented effective procedures that provided reasonable assurance regarding the achievement of its objectives relating to the key elements of effective human resources practices. However, opportunities for improvement exist in developing and implementing personnel policies and procedures and improving management monitoring and review controls.

During the course of this audit, Human Resources personnel are to be commended on their proactive response to each finding as it was presented. The Department Director and her team have diligently worked to find and formulate meaningful solutions to mitigate the identified risks and have already implemented corrective actions to address the majority of the reported concerns.

We appreciate the Department personnel for their assistance in completing this audit. Should you have questions or need clarification, please do not hesitate to contact Oscar Claudio at 242-3382.

C: John Szerlag, City Manager  
Michael Ilczyszyn, Assistant City Manager  
Dolores Menendez, City Attorney  
Rebecca vanDeutekom, City Clerk  
Lisa Sonego, Human Resources Director  
Audit Committee

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# EXECUTIVE SUMMARY

The City Auditor's Office has conducted an audit of the Department of Human Resources. This audit was carried over from Fiscal Year 2013 and included in the City Auditor's Fiscal Year 2014-2015 Audit Plan. The City Council approved the Audit Plan on September 23, 2013. We performed the audit in accordance with the generally accepted government auditing standards.

Significant areas covered during the audit include:

- Compliance with established policies and procedures, code of ordinance, administrative regulations and applicable labor law and legal requirements;
- Key elements of effective human resources practices such as:
  - a) Recruitment and selection;
  - b) Personnel documentation; and
  - c) Termination.

Overall, management had implemented effective procedures that provided reasonable assurance regarding the achievement of its objectives relating to the key elements of effective human resources practices. However, opportunities for improvement exist in developing and implementing personnel policies and procedures and improving management monitoring and review controls.

Based on results of the completed audit, we identified eight audit findings, three reportable conditions and provided recommendations and suggestions to address these issues. The following findings were observed during the audit:

1. The required pre-employment background and security screenings were not consistently conducted and verified for several of the hired employees examined in our test sample.
2. The current background investigation policy has not established well-defined criteria regarding the type or level of background and security screening methods required for pre-employment and employees serving in sensitive positions.
3. Test of several employees in sensitive positions and/or positions of trust showed no evidence of fingerprints being taken and run through various agencies for criminal background check purposes.
4. Several Human Resources policies and procedures have not been updated to account for changes and did not meet the requirements of applicable employment standards within the last 24 months.
5. The personnel rules and regulations had not established an employee code of conduct.
6. Restrictive agreements for such issues as confidentiality and conflict of interest had not been developed and included in the personnel rules and regulations.
7. Several and various required personnel documents were not maintained in the official employee record files.

8. Requirements for the submission of retirement and resignation notices were not in accordance with the personnel rules and regulations.

The following three reportable conditions were observed during the audit:

1. The procurement card issued to one of three sampled retired employees was not cancelled and the cell phone assigned to one of three sampled retired employees was not deactivated after retirement from City employment.
2. The audit cannot verify if the laptops and/or computers for 16 of 20 sampled retired or terminated employees were returned to or taken back by the City since no records were available for verification.
3. In numerous instances, exit interviews were not consistently conducted for terminated employees prior to leaving City employment.

We discussed audit findings with Department management and their responses are included in this final audit report. Our conclusions were based on the various audit procedures performed during the audit process.

## BACKGROUND



The Department of Human Resources administers the City's personnel system and provides professional personnel services and support to approximately 1,600 employees and as appropriate to the City's residents. The Department is responsible for recruitment and selection; benefits administration; labor relations; and compensation and classification of City personnel. As of end of Fiscal Year 2014, the Department has 14 employees, divided into six functions namely administration; customer service; recruitment;

benefits administration; employee labor relations; and classification and compensation.

The Department conducts all its business in accordance with applicable City Ordinances, Florida State and Federal laws and regulations. The Director of Human Resources reports directly to the Assistant City Manager. The Fiscal Year 2014 adopted operating budget for the Department was over \$1.1 million.

## OBJECTIVE

The primary objectives of the audit were to:

- 1) Determine the Department of Human Resources compliance with established policies and procedures, code of ordinance, administrative regulations and applicable Florida State and Federal labor laws and legal requirements;

- 2) Assess certain key elements of effective human resources practices such as: a) recruitment and selection, b) personnel documentation, and c) employee termination.
- 3) Determine whether the internal control system in place provided management with reasonable assurance that policies and procedures are effective and being followed by the Department's personnel.

## SCOPE AND METHODOLOGY

The audit scope focused primarily on the human resources key processes, practices and compliance with applicable labor laws and legal requirements in effect as of Fiscal Year 2014. This audit did not include an examination of the Human Resources Information Systems (HRIS) and the employee benefits and compensation functions.

This audit engagement was planned, conducted and examined relevant evidence and obtained sufficient information to provide reasonable assurance on the reported conclusions. Accordingly, several methodologies were utilized to accomplish the audit objectives.

Our methodologies included but were not limited to:

- Review of City Code of Ordinance Chapter 2 Article III: Personnel Rules and Regulations;
- Review and analysis of Administrative Regulations (AR) that relate to Human Resources policies and procedures such as AR Numbers 6, 7, 12, 14, 15, 19, 21, 22, 29, 33, 34, 41, 45, 52, 57, 60, 61, and 64;
- Research and review of applicable Federal labor laws such as US Department of Homeland Security – US Citizenship and Immigration Services (USCIS I-9), US Department of Labor Poster/Notice Labor law requirements, US Fair Labor Standards Act (FLSA) – Wage and Hour, Family and Medical Leave Act (FMLA), Equal Employment Opportunity Act and Occupational Safety and Health Act (OSHA);
- Interviews with Human Resources management and personnel;
- Judgmentally selected a sample of hired employees to verify whether pre-employment background and security screenings were consistently conducted;
- Testing of judgmentally selected sample of employees in sensitive positions or positions of trust for evidence of fingerprints taken or run through various agencies for criminal background check purposes;
- Analyzing various reports generated from NeoGov employment software;
- Review and analysis of judgmentally selected personnel files for retired and terminated employees and verification of supporting documentation.

Sample testing was used to improve the overall efficiency of the audit. Original records were reviewed and copies were used as evidence and verified through physical examinations.

Lastly, the Department's management and personnel were inquired in order to develop an understanding of relevant internal control structures, obtain sufficient information of operations and to verify the validity of the gathered data and documents.

This audit was neither designed nor intended to be a detailed study of every relevant system, procedure or transaction. Accordingly, the opportunities for improvement presented in this report may not be all-inclusive of areas where improvement may be needed. Although we exercised due professional care in the performance of this audit, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud is the responsibility of management.

## STATEMENT OF AUDITING STANDARDS

We conducted this performance audit in accordance with generally accepted government auditing standards. 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. Also, the audit includes assessment of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## AUDIT FINDINGS AND RECOMMENDATIONS

**Finding #1: The required employment background and security screenings were not consistently conducted and verified for several of the sampled hired employees.**

The audit disclosed evidence that employment background and security screenings such as credit history; criminal investigation; drug test; verification of employment, education and social security number were not consistently conducted and verified on the 40 tested employees. This condition exists before and after the Background Investigation Policy implementation date of August 31, 2009. After implementation, Human Resources Department became diligent in complying with this policy, which resulted in a higher number of employee pre-employment background screenings and verifications. Conversely, the problem was more prevalent prior to the policy implementation date.

Administrative Regulation Number 60: Background Investigation Policy requires the Department to conduct various background and screening checks on initial hires, rehired employees and internal transfers or promotions whether full-time, contract, temporary or volunteers.

The required aforementioned background and security screenings were not accordingly conducted and verified by the Human Resources Department. The loss and liability risks to employers that fail to conduct background checks have never been greater. Background checks help the City hire and promote the most qualified personnel; reduce turnover, employee theft, threat of workplace violence; and afford protection from potential lawsuits related to negligent hiring. Comparison of tested data for employee employment background checks

conducted before and after the implementation of AR 60 - Background Investigation Policy showed:

- Credit history check was 50% after and 60% before implementation;
- Criminal investigation was 100% after and 90% before implementation;
- Drug screening was 55% after and 0% before implementation;
- Education verification was 100% after and 15% before implementation;
- Employment verification was 90% after and 55% before implementation;
- Social Security Number verification was 80% after and 90% before implementation.

As a result, when the required background and security screenings for all hired employees are not consistently conducted and verified, the City may be potentially exposed to increased legal challenge, higher liability insurance premiums and less public confidence in the hiring process.

**Recommendation #1:**

We recommend the Department establish control mechanisms that will ensure the required background and security checks are conducted and verified in order to protect the City against potential legal challenges and payment of higher liability insurance premiums; and to improve public confidence in the hiring process. In addition, Human Resources should ensure information ascertained during the background check phase is well documented and uniformly applied during every phase of the selection process. A background check matrix should be developed to thoroughly document the process.

**Management Response #1:**

*Talent Acquisition has had in place since December of 2014 a Background Verification Requirements Matrix. Also in use is a Background Investigation Checklist so that the recruiter knows when all pertinent items are completed per position posted.*

*Notation on tracking: New Hires and promotions between 2009 and December 2014 were performed, but not tracked in as much detail as from December 2014 to present.*

a. *Ongoing discussions and research to further reduce exposure as relates to background checks. Background checks have been clarified during the 2015 revision of AR#60 Background Investigations (AR was originated in 2009). This AR is now in final draft and in discussions by all applicable stakeholders.*

**Finding #2: The current Background Investigation Policy (AR 60) has not established well defined criteria regarding the type or level of background and security screening methods required for pre-employment and employees serving in sensitive and trust positions.**

Review of employment background and security screening methods conducted on judgmentally selected employees revealed the following:

- Employees in sensitive positions whose responsibilities include direct access to or control over cash, checks, credit cards and/or credit card account information were not subjected to security screenings like credit history check, verification of education and employment and drug screening. However, the same screening methods were conducted on other employees having the same responsibilities.
- Employees in sensitive positions who have access to personal identifying information about employees, management and the general public were not subjected to criminal history investigation, credit history check, drug testing, and verification of employment and education. However, the same screening methods were conducted on other employees having the same responsibilities.
- Employees in sensitive positions who have authority to commit City's financial resources through business contracts were not subjected to security screenings like education verification and drug testing. However, the same screening methods were conducted on other employees having the same responsibilities.
- Employees in trust positions whose responsibilities include care, safety and security of people including children, developmentally disabled and vulnerable adults were not subjected to security screenings like drug screening; verification of education, education and social security numbers; and credit history check. However, other employees in the same category were subjected to the required screenings.
- The audit also revealed that 21 of 55 (38%) tested employees who were determined to be holding sensitive positions or in positions of trust showed no documented evidence of fingerprints being taken or run through various agencies for criminal background check purposes. However, the other 34 employees tested showed evidence of being fingerprinted for criminal background check purposes.

The lack of well-defined criteria resulted in inconsistent application of background and security screening methods required for pre-employment and employees serving in sensitive positions.

Best business practices require criminal background investigations and other screening methods be performed as a condition of employment and promotion on prospective and existing employees in order to protect the City from malicious, improper and fraudulent employment practices. The criminal background investigation should be conducted in accordance with applicable federal and state laws.

Management had not established or developed well-defined criteria regarding the type or level of background and security screening methods required for pre-employment and employees serving in sensitive positions. In addition, the policy's definition of position of trust is limited to employees whose responsibilities include care, safety and security of individuals including children, developmentally disabled and vulnerable adults.

Without established and well-defined criteria regarding the type or level of background and security screening methods applicable for pre-employment and employees serving in sensitive positions or positions of trust, human resources related problems can pose significant risks to the organization. Potential lawsuits and employee turnover lead to additional recruitment, hiring and training efforts all of which cost money and impact productivity and morale. In addition, reputational consequences could occur including outsiders potentially believing that either the City as a whole is a bad place to work or the Department suffers from poor management or lack of leadership.

As of the completion of the audit, management was already in the process of revising and updating the AR 60 to address this specific audit finding.

### **Recommendation #2:**

We recommend the Department revise the current Background Investigation Policy by developing well-defined criteria regarding the type or level of background and security screening methods applicable for pre-employment and employees serving in sensitive positions or persons of trust. Also, the definition of position of trust should be revised to add other sensitive positions, such as those employees whose responsibilities include direct access to or control over cash, checks, credit cards and/or credit card account information; authority to commit the City's financial resources through business contracts; and/or access to personal identifying information about employees, management and the general public. The well-defined criteria must provide a standard that will establish the type or level of background and security methods applicable for pre-employment and employees in sensitive positions and/or positions of trust. Lastly, the Department should have the authority to enforce the background investigation policies.

### **Management Response #2:**

*The revision of AR#60 is currently in process where safety sensitive and persons of trust background screening needs are addressed.*

- a. Under final revision during 2015 with all stakeholders. Identifying safety sensitive positions includes mandatory review for agreement per General union collective bargaining agreement.*
- b. Under final review with executive, police and fingerprinting staff to conclusion on City stance to implement and reflect in AR#60 revision.*
- c. HR will continue to be diligent to best reflect changing regulations and recruitment industry to serve the interests of the City.*

**Finding #3: Test of several employees in sensitive positions and or positions of trust showed no evidence of fingerprints being taken and run through various agencies for criminal background check purposes.**

The audit disclosed that 21 of 55 (38%) of the sampled employees showed no evidence of fingerprints being taken and run through various agencies for criminal background check purposes. The audit determined that these employees were holding sensitive positions whose responsibilities include:

- Direct access to or control over cash, checks, credit cards and/or credit card account information;
- Authority to commit financial resources of the City through contracts;
- Access to personal identifying information about employees, management and the general public; and/or
- Care, safety and security of people including children, developmentally disabled and vulnerable adults.

Some of these personnel may have already been fingerprinted but the Department of Human Resources was not able to provide records to evidence as such.

Best business practices require criminal background investigations be performed as a condition of employment and promotion on prospective and existing employees in order to protect the City from malicious, improper and fraudulent hiring practices. Criminal background investigations should be conducted in accordance with applicable federal and state laws and regulations. The Department has not established effective means of monitoring the employees that are subject to fingerprinting for criminal background purposes, which resulted in numerous employees not being fingerprinted.

By not conducting the required fingerprinting for criminal background investigation purposes, the City may be exposed to potential increased legal challenges, risk of high liability insurance premiums and less public confidence in the City's hiring process.

**Recommendation #3:**

We recommend the Department ensure that the required fingerprinting and associated criminal background checks are conducted for City personnel especially those that hold sensitive positions and responsibilities. This business practice protects the City from potential malicious, improper and/or fraudulent employment practices. A fingerprinting background check matrix should be developed to thoroughly document the process.

**Management Response #3:**

- a. *Ongoing discussions and research to further reduce exposure as relates to background checks. Background checks have been clarified during the 2015 revision of AR#60 Background Investigations (AR was originated in 2009). This AR is now in final draft and in discussions by all applicable stakeholders.*
- b. *Forensics and Talent Acquisition Divisions have an agreed upon detailed process flow chart, revised as of 2-2016.*

**Finding #4: Numerous Human Resources policies and procedures have not been updated to account for changes and to meet the requirements of applicable employment standards within the last 24 months.**

The Department has not updated 11 of 18 (61%) of the Administrative Regulations (AR) that relate to personnel policies and procedures.

Of the 11 not updated ARs:

- Seven were not updated since 4 to 9 years ago. These are AR #6, #15, #19, #33, #34, #57, and #64;
- Two were not updated since 12 to 14 years ago. These are AR #41, and #45;
- Two were not updated since 20 to 24 years ago. These are AR #14 and #21.

Best business practices dictate that policies and procedures related to employment and labor laws should be updated soon as new regulations are issued and implemented by responsible Federal, State and local agencies.

The Department has not regularly reviewed these policies and procedures. As a result, some of these ARs are not current with the latest employment and labor laws. There is no tracking system in place to monitor the current status of these ARs. Several ARs had not been revised and updated from four to 24 years ago.

The enforceability of inaccurate and outdated policies and procedures will cause confusion among personnel as to which correct procedures to follow; increase risk of attaining erroneous results; and difficulty to focus resources to correct deficiencies.

As of the completion of the audit, management was in the process of diligently revising and updating these Administrative Regulations.

**Recommendation #4:**

We recommend the Department revise and update its current policies and procedures in order to strengthen the department's internal control systems and be consistent with the current Federal, State and local employment and labor laws. In addition, management must develop a

tracking system to monitor the status of these policies and procedures in order to determine which require an update or revision. A strong and well-designed system of internal controls can better protect assets; improve effectiveness and efficiency of operations; and compliance with applicable laws and regulations.

#### **Management Response #4:**

*a. HR has conducted an unprecedented amount of AR rewrites during years 2014 and 2015, and continues until all 32 are completed.*

*All HR actions are in line with State and Federal regulations, AR's need to reflect such practices.*

*b. HR has created a tracking system that the full City administration has adopted to track and assign all AR's within the City to a specific ownership department. There are now "Review Dates" on each revised AR, dated 2 years out from approval so at minimum AR's will be readdressed for possible changes every 2 years.*

*Summary: There are 32 Administrative Regulations with either HR ownership or joint department ownership. From 2014 to January 2015:*

*8 completed (including 2 abolished)  
9 in process for acceptance and approval  
5 in Draft form  
10 remain*

#### **Finding #5: The City's personnel rules and regulations had not established an Employee Code of Conduct.**

The City Ordinance Chapter 2, Article III Personnel Rules and Regulations did not contain a provision for an employee code of conduct.

Best business practices and good governance require the development and implementation of a code of conduct. Good governance refers to the degree to which a government ethically and transparently protects, represents and provides services to its citizens.

The City did not develop and implement an employee code of conduct. Consequently, the City Ordinance on personnel rules and regulations did not have a specific provision that directly addressed the employee code of conduct.

Without an established code of conduct, City employees will not have rules of conduct to follow that define what is considered unacceptable behaviors and activities, and the potential consequences of any breaches or violations of such behaviors.

### Recommendation #5:

We recommend the Department develop and implement the City's Employee Code of Conduct that will directly address and define what is considered unacceptable behavior and activities and the possible consequences of any breaches or violations. The Employee Code of Conduct must be submitted to the City Council for review and approval.

### Management Response #5:

- a. *In conjunction with the City Attorney's Office, a draft "Standards of Behavior" document was created in 2015.*
- b. *Upon draft approval, need to determine appropriate adoption mechanism. Either added via City's Code of Ordinances or added administratively through the City Manager's Office.*

### Finding #6: Restrictive agreements for such issues as confidentiality and conflict of interest had not been developed and included in the Human Resources personnel rules and regulations.

The audit revealed that an employee non-disclosure agreement and policy on conflict of interest had not been developed and included in the Human Resources personnel rules and regulations.

Best business practices and good governance require the development and implementation of an employee non-disclosure agreement and conflict of interest policy. Good governance refers to the degree to which a government ethically and transparently protects, represents and provides services to its citizens.

The Department did not specifically develop a restrictive agreement and conflict of interest policy to be included in the personnel rules and regulations.

Without an employee non-disclosure agreement, the City will not have protection against employees who may willingly and/or unknowingly provide or share confidential and proprietary information with those outside of the organization. Without an existing conflict of interest policy, City officials and employees may not perform their duties conscientiously, honestly and in accordance with the best interest of the City.

### Recommendation #6:

We recommend the Department develop and implement policies and procedures that will address restrictive agreements regarding confidentiality and conflict of interest. The employee non-disclosure agreement must ensure that employees have a clear understanding of the importance of protecting the City's private, confidential and proprietary information and not sharing such information outside of the organization.

The conflict of interest policy must be defined to expect City officials and employees to perform their duties conscientiously, honestly and in accordance with the best interest of the City. These City officials and employees must not utilize their positions or knowledge for personal benefit and advantage.

### Management Response #6:

*This is to be addressed in the "Standards of Behavior" document.*

*Please see response to number 5.*

### Finding #7: Several and various personnel documents were not maintained in the official employee record files.

The Department did not maintain several personnel documents in the official employee record files. Examples of personnel documents found to be missing in the official employee files are:

- |                              |                                   |
|------------------------------|-----------------------------------|
| 1) employment application;   | 6) original appointment;          |
| 2) resume;                   | 7) performance evaluation;        |
| 3) non-medical test result;  | 8) W9 form;                       |
| 4) academic documents;       | 9) W2 form;                       |
| 5) background investigation; | 10) I-9 form; and                 |
|                              | 11) signed public employment oath |

Administrative Regulation Number 34 (AR 34) requires the Department to maintain personnel records for applicants, employees and past employees in order to document employment related decisions and comply with government record keeping and reporting requirements.

The Department has not performed a customary review of personnel files on a regular basis. This has resulted in incomplete or missing documents in the official employee files. Procedures

had not been established or developed to ensure complete and appropriate records are maintained in the personnel files. Result of the 20 personnel file records tested showed:

- 1/20 did not contain an employment application;
- 6/20 did not contain resumes;
- 1/20 did not contain non-medical test result;
- 4/20 did not contain academic documents;
- 6/20 did not contain background investigation records;
- 4/20 did not contain original Appointments;
- 1/20 did not contain performance evaluations;
- 20/20 did not contain W9 Forms;
- 20/20 did not contain W2 Forms;
- 1/20 did not contain I9 Form;
- 2/20 did not contain signed public employment oath; and
- 1/4 Veterans' preference tested did not contain DOD Form 214.

Insufficient and inaccurate documents do not provide adequate support regarding employment related decisions and are not in compliance with government record keeping and reporting requirements.

#### **Recommendation #7:**

We recommend the Department establish and implement procedures that will ensure personnel records for applicants, employees and former employees are maintained in the official employee files. Customary review of personnel files should be performed on a regular basis to ensure employee records are up to date. Also, AR 34 should be revised or amended in order to reflect administrative changes in record keeping laws and regulations.

#### **Management Response #7:**

1. *Applicant Tracking: NeoGov with exam plans – adhere to 3 fiscal years for retention.*

a. *AR#34 will address audits of random personnel files to ensure compliance.*

*Of note: HR continually participates in self audits such as: Internal I-9 HR audit conducted in 2014/2015 to successful conclusion.*

b. *AR#34 Personnel Records is one of the AR's in number 4 that is currently in draft form.*

#### **Finding #8: Requirements for the submission of retirement and resignation notices were not in accordance with Personnel Rules and Regulations.**

Audit disclosed that 50% (5/10) of the sampled terminated (voluntary and involuntary) employees did not submit resignation notices less than 14 calendar days prior to effective

resignation date and 30% (3/10) of retired employees did not submit retirement notices at all. However, 50% (5/10) of retired employees submitted retirement notices timely and 30% (3/10) of the sampled terminated employees submitted resignation notices in a timely manner as well.

Code of Ordinance Chapter 2 Article III: Personnel Rules and Regulations require an employee who intends to retire from City employment to provide written notice of intent to retire not less than 60 days prior to the effective date of retirement. Also, an employee who intends to resign shall present the reasons in writing to the City not less than 14 calendar days prior to the effective date of resignation.

It is apparent that the Department has no review or monitoring process in place regarding the acceptance of retirement and resignation notices. In addition, the Department has not ensured and reviewed the validity, accuracy and completeness of information received from departing employees.

When retirement and resignation notices are not submitted timely and in several instances not submitted at all, the City will be in a disadvantaged position because it will not be able to anticipate and prepare for the possible job vacancies created by these departing employees.

Integrity of information issues increase the risk of inaccurate data received and incorrect information may be used for management decision-making purposes. Therefore, with unreliable and incomplete information, the Department cannot properly determine and ensure all employees are adhering to the required rules and regulations.

**Recommendation #8:**

We recommend the Department develop and implement a formalized review and oversight process aimed at ensuring the validity, accuracy, completeness and timeliness of data in order to support the integrity of information received from departing employees.

**Management Response #8:**

*The Personnel Rules and Regulations state all employees must provide written notice not less than 14 calendar days. However, organizations are unable to obtain or require resignation notices from employees who involuntarily terminate employment or whom do not wish to submit a notice as referenced above.*

*The source documents for involuntary termination can be a final notice of discipline regarding termination or retirement notification for retirees.*

*In addition, to assist in securing a 14 day notification, an Ordinance is in draft form proposing employees provide a 2 week notice in return for payout of PTO banks.*

*Other information received from employees upon departure is voluntary.*

## REPORTABLE CONDITIONS<sup>1</sup>

**Reportable Condition #1: The procurement card assigned to a retired employee and a cell phone assigned to another retiree were not cancelled or deactivated after retirement from City employment.**

The audit disclosed that a retired employee's procurement card was not cancelled when the employee became officially retired on July 4, 2014. At the end of audit fieldwork on July 15, 2015, it was revealed that this procurement card remained active even though the cardholder had been retired for over one year. According to the Procurement Division staff, the procurement card was not cancelled at the time because of an outstanding balance that needed to be paid. An email was received from the Procurement Division staff stating that the procurement card was officially deactivated on July 24, 2015.

Furthermore, audit revealed that another retired employees' cell phone was not deactivated when the employee became officially retired on June 14, 2014. At the end of audit fieldwork on July 15, 2015, it was revealed that this cell phone remained active and still on the retiree's name even though the employee had been retired for over one year. According to the Public Works staff, the cell phone was officially transferred to another employee on July 20, 2015.

### **Suggestion Reportable Condition #1:**

We suggest management develop and implement procedures that will ensure procurement cards and cell phones assigned to retiring and resigning employees be immediately cancelled or deactivated in order to protect the City from potential fraudulent practices that may occur. It is also suggested that Human Resources Department develop and use a termination checklist to ensure appropriate records, equipment and articles (e.g. ID/Badges, procurement cards, laptops, cell phones, etc.) are received from and returned by every departing employees.

### **Management Response Reportable Condition #1:**

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<sup>1</sup> Matters coming to the Auditor's attention relating to significant deficiencies in the design or operation of internal control that could adversely affect the organization's ability to fulfill future obligations or satisfaction of liabilities.

- a. *The City currently uses a city-shared check list in the form of an electronic separation notice, upon an employee's termination. This notice is initiated by the employee's department upon termination. This notice is routed to various departments to cease accesses and return City work-tools upon termination, i.e. Finance for purchasing cards, IT for cell phone/computer access, Public Works for door accesses, and HR for Kronos entry and Benefits follow up.*
- b. *City Management concurs and will discuss an action response appropriate to the level of risk associated with job items and tools that an exiting employee may have in possession prior to ceasing employment.*

**Reportable Condition #2: Records are not available to verify whether computers and/or laptops assigned to retired or terminated employees were returned to or taken back by the City.**

The audit cannot verify whether computers and/or laptops were assigned to 16 of 20 retired or terminated employees and if these resources were returned to or taken back by the City since no records are available for verification. According to ITS Department, City owned computers and devices are not tracked during the equipment's' service life.

**Suggestion Reportable Condition #2:**

We suggest management establish an inventory list of all computers, laptops and other devices in order to properly track and monitor assignees, transfers and other changes during the life of this equipment. It is also suggested that Human Resources Department develop and use a termination checklist to ensure appropriate records, equipment and articles (e.g. ID/Badges, procurement cards, laptops, cell phones, etc.) are received from and returned by every departing employee.

**Management Response Reportable Condition #2:**

*Returning the tools to perform ones job is not best accomplished through an exit interview due to exit interviews by their nature not being mandatory.*

*However, please see management response to the previous Reportable Conditions #1 which addresses securing City items or tools that an employee may have upon ceasing employment.*

**Reportable Condition #3: In numerous instances, exit interviews were not consistently conducted for terminated employees prior to leaving City employment. In numerous instances, exit interviews were not consistently conducted for terminated employees prior to leaving City employment.**

The audit sampled a total of 20 retired and terminated employees to determine whether exit interviews were conducted prior to their leaving City employment. The test revealed that Human Resources conducted exit interviews for 10 of 10 (100%) of the sampled retired employees. However, the test revealed that Human Resources did not conduct exit interviews in 9 of 10 (90%) of the sampled terminated (voluntary and involuntary) employees prior to their leaving employment.

According to the National Federation of Independent Business, an employee exit interview is never an attempt to reverse an individual's resignation. The essential purpose is to determine whether there are problems that should be addressed to help prevent further losses of valued employees.

By not conducting employee exit interviews, the City may not be able to determine or uncover the reasons for employee turnover and therefore adequately eradicate or reduce this liability.

**Suggestion Reportable Condition #3:**

We suggest that the Department conduct exit interviews to all departing employees. Exit interviews can assist management in graphing the pattern and use this information to make decisions whether to change business practices to reduce employee turnover and/or change employee selection practices. Additionally, exit interviews can be utilized to discuss the City's and employees' rights and obligations after termination. This process conveys that the City follows the law, which may reduce the City's exposure to discrimination, harassment and employment lawsuits that may be filed by departing employees.

**Management Response Reportable Condition #3:**

*An exit interview is a voluntary event and by its nature is not able to be mandatory, therefore cannot be consistently administered but is consistently offered. Benefits Coordinator highly encourages and meets with terminating and retiring employees and uses the "Exit Paperwork".*

*City Management will review the process of best practice to document consistently offering an exit discussion and/or to meet with HR upon ceasing employment. Possible administration through the cities upcoming Learning Management System.*