TEXAS REAL ESTATE COMMISSION INTERNAL AUDIT SERVICES

Human Resources

Audit #23-003
June 28, 2023

This report provides management with information about the condition of risks and internal controls as a specific point in time. Future changes in environmental factors and actions by personnel may impact these risks and internal controls in ways that this report cannot anticipate.

Audit Report Highlights
Human Resources

Why Was This Review Conducted?

McConnell & Jones LLP (MJ) serving as the outsourced internal audit function (Internal Audit) for the Texas Real Estate Commission (TREC) Human Resources (HR) performed this internal audit as part of the approved FY 2023 Annual Internal Audit Plan.

Audit Objectives and Scope

To assess management controls and processes in place for human resources functions to ensure efficiencies and compliance with local, state, and federal laws.

The audit scope period was FY 2022 through March 2023.

Audit Focus

1. Benefits Processing.
2. Family and Medical Leave Act (FMLA) Processes.
3. On-Boarding Processes.
4. Separation Process.
5. Compliance with TREC Policies.

Audit Conclusions

In August 2022, a new Human Resources Director started with the Agency. During the Director's short tenure with TREC, she has implemented and/or updated policies and procedures to make HR more efficient and effective. Additionally, the director continues to identify opportunities to improve processes.

Overall, the design of the agency's internal controls over human resources processes requires some improvement. This is related to employee files maintained prior to the new HR Director joining TREC.

We identified one (1) internal control weakness and two (2) opportunities to strengthen the controls and processes in place.

Internal Control Rating
Some Improvement Needed.

What Did We Recommend?

The TREC Human Resources department should review employee files for staff that were on-boarded boarded from September 2020 through November 2022 to ensure all documents are completed, received, and maintained on file.

Number of Findings by Residual Risk Rating

Category	High	Medium	Low	Total
Findings	0	0	1	1

Thank you!

We want to thank all employees for their openness and cooperation. Without this, we would not have been able to complete our review.

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Introduction

We performed this audit as part of the approved FY 2023 Annual Internal Audit Plan. This audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS). 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. We believe that the evidence obtained accomplishes that requirement.

Pertinent information has not been omitted from this report. This report summarizes the audit objective and scope, our assessment based on our audit objectives and the audit approach.

Objective, Conclusion, and Internal Control Rating

To assess management controls and processes in place for the Texas Real Estate Commission's (TREC) Human Resources (HR) Department to ensure efficiencies, and compliance with local, state, and federal laws.

As such we focused on the following processes:
1. Benefits Processing.
2. Family and Medical Leave Act (FMLA) Processes.
3. On-Boarding Processes.
4. Separation Process.
5. Compliance with TREC Policies.

The audit scope period was September 2021 through March 2023.

This audit identified one finding that resulted in an overall internal control rating of **Some Improvement Needed. Exhibit 1** describes the Internal control rating**.**
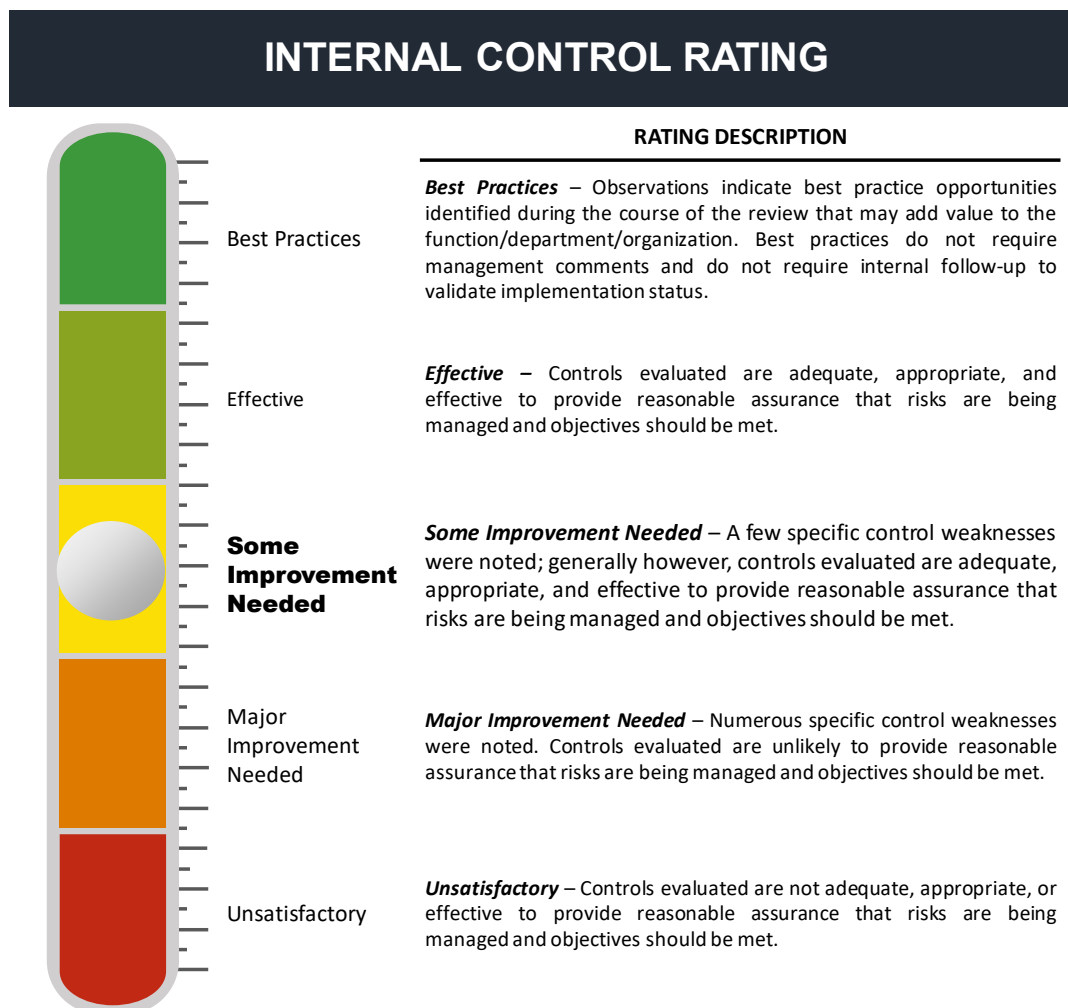
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INTERNAL CONTROL RATING

	RATING DESCRIPTION
Best Practices	***Best Practices*** – Observations indicate best practice opportunities identified during the course of the review that may add value to the function/department/organization. Best practices do not require management comments and do not require internal follow-up to validate implementation status.
Effective	***Effective –*** Controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Some Improvement Needed	***Some Improvement Needed*** – A few specific control weaknesses were noted; generally however, controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Major Improvement Needed	***Major Improvement Needed*** – Numerous specific control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.
Unsatisfactory	***Unsatisfactory*** – Controls evaluated are not adequate, appropriate, or effective to provide reasonable assurance that risks are being managed and objectives should be met.

Exhibit 1: *Internal control rating description.*

Finding vs Improvement Opportunity

We define a finding as an internal control weakness or non-compliance with required policy, law, or regulation. We define an improvement opportunity as an area where the internal control or process is effective as designed but can be enhanced.

Findings and Risk Rating Summary

Inherent risk is the business risk associated with the respective function or process if internal controls were not in place or were not effective. Residual risk is Internal Audit's ranking of the remaining risk or likelihood of a negative event occurring with the internal controls and processes in place. **Exhibit 2** provides a summary of our audit observations. See the findings and management response section of this report for a discussion of all issues identified, recommendations, and management responses.

Business Objective / Focus Area	Business Risk Ranking	Control Effectiveness and Finding	Recommendations
1. Benefits Processing.	**Inherent Risk: High** **Residual Risk: Low**	**Generally Effective** No findings noted.	No recommendation made as internal controls are generally effective.

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Business Objective / Focus Area	Business Risk Ranking	Control Effectiveness and Finding	Recommendations
2. FMLA Processes.	**Inherent Risk: High** **Residual Risk: Low**	**Generally Effective** No findings noted.	No recommendation made as internal controls are generally effective.
3. On-boarding Processes.	**Inherent Risk: High** **Residual Risk: Low**	**Some Improvement Needed** Findings noted were prior to the current HR director's start with TREC in August 2022. Issues noted have been addressed since October 2022.	The TREC Human Resources department should review employee files for staff that were on-boarded between September 2020 through November 2022 to ensure all required documents are completed, received, and maintained on file. *Opportunity for Improvement* O-1. Consider updating the onboarding checklist to list all documentation requested during the onboarding process such as SORM Workers Compensation acknowledgement, Safety Manual Acknowledgement Form, Emergency Contact Form, etc. O-2. Consider reviewing the Employee handbook at least annually for updates and/or revisions.
4. Separation Process.	**Inherent Risk: High** **Residual Risk: Low**	**Generally Effective** No findings noted.	No recommendation made as internal controls are generally effective.
5. Compliance with Policy and Procedures.	**Inherent Risk: High** **Residual Risk: Low**	**Generally Effective** No findings noted.	No recommendation made as internal controls are generally effective.

Exhibit 2: *Summary of Internal Audit Findings and Recommendations.*

Background

TREC's Human Resources Department is tasked with processes related to employee benefits, FMLA, new employee onboarding, employee separation, and compliance with state and federal policies and procedures.

A new HR Director started with TREC in August of 2022. The Human Resource Director implemented changes to improve processes. The HR department's goal in addition to managing HR functions is to identify growth opportunities and continue improving processes.

TREC's Human Resources Department previously included four approved full-time equivalents (FTEs). One position was reallocated to the Finance department to assist with payroll administration. This resulted in a total of three remaining approved FTEs and no open vacancies. **Exhibit 3** provides TREC's Human Resources organization structure.

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Exhibit 3: *Texas Real Estate Commission Human Resources Organization Structure.*

Detailed Findings and Management Response

> *This section of the report provides a detailed discussion of opportunities we noted during the audit along with recommendations to improve internal controls or the business process.*

Business Objective #1: Benefits Processing

Business Risk Rating (Inherent): High

Business Risk Rating (Residual): Low

Business Objective: To have processes and management controls in place that ensure employees are enrolled in their employment benefits timely and accurately.

Control Rating: Generally Effective.

Finding Narrative:

The Employees Retirement System of Texas (ERS) manages employment benefits for the State. TREC HR staff serve as a facilitator or liaison for employees regarding the benefits enrollment and changes. Due to the limited responsibility of TREC HR, our review was based upon the current processes in place to provide awareness of deadlines and other employee benefits related information.

Criteria	➲ ERS Benefits Coordinator Processing Manual Chapters 1-4.
	➲ Texas Government Code 1551.002.
	➲ Texas Government Code 1551.1055.
Effect/Risk/Impact	➲ Benefits processing may not be timely, accurate, or meet employee needs.
Control Tests	➲ Interviewed HR staff about the employee benefits process.
	➲ Reviewed the Employee Benefits Guidelines provided by ERS to determine TREC HR responsibilities.

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	➲ Selected a judgmental sample of employees from the population and applied audit procedures.
	➲ Conducted virtual walkthrough of benefits processing and reviewed supporting documentation retained by TREC.
Management Controls in Place	➲ ERS manages employee benefits in accordance with Texas Government Code 1551.002 and 1551.1005.
	➲ Current employees are automatically enrolled (passive enrollment) for their benefits by the ERS system. Any benefit changes are made directly in the ERS system by the respective employee.
	➲ TREC HR staff send reminder emails to employees to enroll in benefits.
Findings / Opportunities	No findings noted.
Root Cause	Not applicable as no findings were noted.

Recommended Actions

No recommendations are made.

Management Response

Not required as no findings were noted.

Business Objective #2: FMLA Processes

Business Risk Rating (Inherent): High

Business Risk Rating (Residual): Low

Business Objective: To have processes and management controls in place that ensure TREC complies with the Family and Medical Leave Act (FMLA).

Control Rating: Generally Effective.

Finding Narrative:

TREC HR staff utilize an FMLA tracker/spreadsheet to monitor and track FMLA requests. The spreadsheet has been maintained and monitored since October 2022 when the Sr. HR Specialist was assigned FMLA responsibilities. Prior to October 2022, the spreadsheet was not consistently updated or monitored.

Criteria	➲ United States Department of Labor - Wage and Hour Division.
	➲ Code of Federal Regulations: Part 825 The Family and Medical Leave Act of 1993.
Effect/Risk/Impact	➲ Noncompliance with FMLA guidelines and regulations may result in decreased productivity of agency functions, legal actions, fines and/or investigations from regulatory or federal entities, and employee misuse.
Control Tests	➲ Inquired staff about the FMLA process.
	➲ Selected a judgmental sample of employees from the population to perform audit procedures.
	➲ Conducted visual walkthrough to review FMLA supporting documentation retained by TREC.

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Management Controls in Place	➲ Agency FMLA tracker/ spreadsheet is utilized to manage employee requests for FMLA and status. ➲ TREC HR staff utilize the state's CAPPS system as a tool to track FMLA balances and manage related events. ➲ TREC HR staff follow federal guidelines to implement FMLA program.
Findings / Opportunities	Findings: No findings noted.
Root Cause	Not applicable as current processes ensure TREC complies with the Family and Medical Leave Act.

Recommended Actions

Findings:

No recommendations are made as current management controls and processes ensure the agency is in compliance with FMLA guidelines and regulations.

Management Response

Not required as no findings were noted.

Business Objective #3: On-boarding New Employees

Business Risk Rating (Inherent): High

Business Risk Rating (Residual): Low

Business Objective: To have management controls, policies, and processes in place that ensure the new employee on-boarding processes are timely, meets regulatory requirements and the employee needs for successful transition to their new role.

Control Rating: Some Improvement Required.

Finding Narrative:

TREC's HR staff hosts a new hire orientation for all new hire employees where all required onboarding paperwork is explained, completed, and submitted to the HR staff. The new HR director created an on-boarding checklist to track the receipt of documents requested of new hires. However, prior to the start of the new director, a final review of the personnel file was not performed to ensure required onboarding paperwork were obtained and filed.

During our audit scope period FY2022 to March 31, 2023, a total of 58 employees were hired by TREC. We selected a sample of seven (7) or 12% new hires during the audit scope period to test the on-boarding processes.

Criteria	➲ 2021 Texas Real Estate Commission Texas Appraiser Licensing & Certification Board Employee Handbook. ➲ U.S. Citizen and Immigration Services. ➲ New Hire Checklist. ➲ Texas HRM Statutes Inventory.
Effect/Risk/Impact	➲ On-boarding processes may not be timely, meet regulatory requirements or employee needs for successful transition to new role.

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Control Tests	➲ Inquired about the onboarding processes and required documentation.
	➲ Reviewed the Employee Handbook for policies related to the employee on-boarding processes.
	➲ Reviewed the New Hire checklist for procedures related to the employee on-boarding processes.
	➲ Conducted walkthrough to observe what processes occur and documents are provided during the onboarding processes.
	➲ Identified any processes that were not consistent with the new hire checklist procedures.
Management Controls in Place	➲ HR staff use the new hire checklist to ensure completion of onboarding processes.
	➲ HR staff use the employee handbook to reference policies.
	➲ HR staff use the HR calendar to track orientation dates and paperwork deadlines.
	➲ HR staff use the Texas HRM Statutes Inventory to reference policies.
Findings / Opportunities	Findings:
	1. Four (4) of the seven (7) new hire employees sampled had supporting documentation consistent with the new hire checklist procedures. Three (3) of the files tested identified missing documentation as noted below.
	o One (1) employee file was missing the following required documentation: W-4, Texas Employment History Form, I-9, HIPPA and COBRA notifications. This employee was hired and resigned within the same month and prior to the current HR director's hiring in August 2022.
	o Two (2) employee files were missing copies of the employee HIPPA notification. One of these occurred in October 2022, during the early tenure of the new director. The second employee file discrepancy occurred in September 2021.
	o One (1) employee file was missing documentation that the employee benefits package had been emailed as well as the parking and badge application. This occurred in September 2021.
	o Prior to the start of the new director, a final review of the personnel file was not performed to ensure required onboarding paperwork were obtained and filed.
	Opportunity for Improvement:
	O-1. The current checklist does not list all the documents requested during onboarding.
	O-2. The most recent employee handbook is dated August 2021.
Root Cause	TREC's previous HR director did not establish a final file review process for the collection of required onboarding documents to ensure all state, federal, and agency requirements are being met.

Recommended Actions

Findings:

1. The TREC Human Resources department should ensure all required onboarding documents are completed, received, and kept on file going forward. Additionally, a full file review for employees with a start date from September 2020 through November 2022 should be performed and missing documents should be obtained.

Opportunities for Improvement:

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O-1. Consider updating the onboarding checklist to list all documentation requested and received during the onboarding process such as SORM Workers Compensation acknowledgement, Safety Manual Acknowledgement Form, Emergency Contact Form, etc.

O-2. Consider reviewing the Employee handbook at least annually for updates and/or revisions.

Management Response

The HR Department has re-instituted a personnel file checklist which includes all new hire onboarding paperwork beginning in July 2023. This check list will ensure all required onboarding documents are completed, received, and kept on file. Additionally, the department will review all current personnel files for completion by December 31, 2023.

In August of 2021, a significant rewrite of the Employee Handbook was completed. A review of the handbook has been conducted since that time, but not documented. Staff will create a log of dates and content of changes, with the commitment of doing so at least once a year.

Business Objective #4: Separation Process

Business Risk Rating (Inherent): **High**

Business Risk Rating (Residual): **Low**

Business Objective: To have management controls, policies, and processes in place that ensure the employee separation process is being performed timely, meets regulatory requirements, protects the agency, and provides separating employees a smooth exit process.

Control Rating: Generally Effective.

Finding Narrative: The employee separation checklists were implemented after the new HR Director started in August, 2022. Two checklists are utilized during the separation process. Although the checklists are helpful tools they are not detailed and do not require follow-up to ensure the separation tasks have been completed.

Criteria	➲ 2021 Texas Real Estate Commission Texas Appraiser Licensing & Certification Board Employee Handbook. ➲ Separation Checklist. ➲ Manager Separation Checklist Guide V1. ➲ Texas Government Code 651.007. ➲ Separation Procedure. ➲ Separation Guide for Employees.
Effect/Risk/Impact	➲ The employee separation process may not be timely, meet regulatory requirements, protect the agency, or provide separating employees a smooth exit process.

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Control Tests	➲ Reviewed the Employee Handbook for policies related to employment separation.
	➲ Reviewed the Separation Checklist for procedures related to employment separation.
	➲ Reviewed the Manager Separation Checklist Guide for related to employment separation.
	➲ Reviewed the Separation Procedures.
	➲ Reviewed the Separation Guide for Employees.
	➲ Selected a judgmental sample of five employees from a listing of terminated employees and applied audit testing procedures.
	➲ Inquired about the different termination types and their processes.
	➲ Conducted a walkthrough to observe the separation steps, process, and documents with Benefits coordinator.
	➲ Reviewed an example of terminated access for an employee.
	➲ Identified any processes that did were not consistent with the separation checklist procedures.
Management Controls in Place	➲ HR staff use a separation checklist to ensure processes are completed.
	➲ HR staff use the employee handbook to reference policies.
	➲ HR staff collaborate with TREC's legal team to ensure compliance with human resource laws and guidelines.
	➲ HR staff use the Texas HRM Statutes Inventory to reference policies.
Findings / Opportunities	Findings: No findings noted.
Root Cause	Not applicable as no findings were noted.

Recommended Actions

Findings:

No recommendations are made.

Management Response

Not required as no findings were noted.

Business Objective #5: Policy & Procedures

Business Risk Rating (Inherent): High

Business Risk Rating (Residual): Low

Business Objective: To have policies and procedures in place to ensure TREC complies with state and federal guidelines regarding employee benefits, Family and Medical Leave Act, hiring and separation.

Control Rating: Generally Effective

Finding Narrative:

TREC maintains an employee handbook, updated as of 2021, which provides staff agency policies, procedures, practices, and benefits. These policies and procedures are followed to ensure the agency complies with state and federal guidelines.

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Criteria	➲ Texas Government Code 651.007. ➲ The Family and Medical Leave Act. ➲ 2021 Texas Real Estate Commission Texas Appraiser Licensing & Certification. Board Employee Handbook. ➲ Checklist New Hire Paperwork. ➲ Checklist Employee Termination. ➲ Title 29 Family and Medical Leave Act CFR825.700. ➲ Employers Guide to FMLA.
Effect/Risk/Impact	➲ Employee separation process may not be timely, meet regulatory requirements, protect the agency, or provide separating employees a smooth exit process.
Control Tests	➲ Inquired about what policies and procedures the HR department uses and abides by. ➲ Reviewed Employee Handbook policies and listed applicable policies on FMLA, Benefits, on-boarding, and Separation on the matrix. ➲ Reviewed state and federal guidelines and listed applicable guidelines on FMLA, Benefits, on-boarding, and Separation on the matrix. ➲ Conducted walkthrough to assess compliance with listed policies in the policy matrix.
Management Controls in Place	➲ Checklists are used for onboarding and separation procedures. ➲ ERS serves as administrator for Benefits and includes an automatic annual enrollment for current employees. A spreadsheet is used for tracking FMLA cases. ➲ The employee handbook is used to reference policies.
Findings / Opportunities	Findings: No findings noted.
Root Cause	Not applicable as no findings were noted.

Recommended Actions

Findings:

No recommendations are made.

Management Response

Not required as no findings were noted.

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