

**Summary of Request:**

The Board approved an internal audit plan for 2017 which included a Human Resource Management Audit.

**Historical Perspective:**

The Texas BON identified Human Resource Management as an audit topic in the annual Internal audit plan for fiscal year 2017. The risk of non-compliance with state and federal laws and rules was designated as a high impact and high probability ranking on the risk footprint.

**Pros:** The Board of Nursing will be in compliance with the Texas Internal Audit Act requirement to periodically include administrative systems and controls in agency audits.

**Cons:** None.

**Staff Recommendation:**

Board Action: Move to accept Internal Audit Report 2017-1, Human Resources Management Audit as prepared by Jay Steppe, CPA.



# Texas Board of Nursing

**Internal Audit Report #2017-1**

**Human Resources Management Audit**

Prepared by:  
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## **Acronyms and Abbreviations**

- CPA           Comptroller of Public Accounts, Texas
- DIR           Department of Information Resources, Texas
- ED            Executive Director
- EEO           Equal Employment Opportunity
- ERS           Employees Retirement System
- FTE           Full-time Equivalent
- HR            Human Resources
- HRMS         Human Resource Management Statutes Inventory
- IA            Internal Audit
- IIA           Institute of Internal Auditors
- IPPF         International Professional Practices Framework, IIA's
- IT            Information Technology
- SAO           State Auditor's Office
- SHRM         Society of Human Resource Management
- TAC           Texas Administrative Code
- TGC           Texas Government Code

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## **Internal Audit Report**

April 5, 2017

Texas Board of Nursing

The following report provides the results of the internal audit of the Board of Nursing's Human Resources Management function. The agency's guidance and practices were compared to the State Auditor's Human Resource Management Statutes Inventory for compliance and effectiveness.

We conducted this audit in accordance with *Generally Accepted Government Auditing Standards* and the *International Professional Practices Framework* of Internal Auditing. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

Overall, based on the results of our review and testing, controls in place at BON provide reasonable assurance of compliance with the Texas Human Resources Management Inventory and state and federal human resource laws. Opportunities for improvement exist as detailed in the attached report.

*Jaye Stepp*

CPA, CIA, CGAP, CRMA

E. J. Stepp, CPA  
Internal Auditor for BON  
Austin, Texas

## **Executive Summary**

### **Audit Purpose**

The Board of Nursing identified Human Resource Management as an audit topic in the annual BON Internal Audit Plan for FY-2017. The audit objectives were to evaluate the effectiveness of the Human Resources function and to assess regulatory compliance. The risk of non-compliance with state and federal laws and rules was assigned high impact and high probability rankings on the risk footprint. The risks are mitigated by several control steps including documented procedures, multi-level review and approval processes, quarterly reports, and qualified staff. The human resources function has not been previously audited by the BON Internal Auditor. This audit will concurrently satisfy the Texas Internal Auditing Act requirement to periodically include administrative systems and controls in agency audits.

The Texas Human Resources Management Statutes Inventory (Inventory) is provided by the State Auditor's Office as a guide to assist state agencies and institutions of higher education in identifying and implementing the human resource function. The Inventory is a compilation of major state and federal laws that apply to human resources management and it is updated every two years. The Inventory was used as the primary resource for compliance testing in this audit. Some areas of the Inventory were beyond the scope of the human resource function at BON and were excluded from this audit. These included areas such as salary administration, employee compensation, payroll, leave provisions, state holidays, insurance programs, and retirement.

### **Overall Conclusion**

The BON Human Resource Manual (Manual) introduces new employees to the BON's Mission, Philosophy, and Customer Service Standards in their new employee training. The Manual is extensive as it covers employment practices, standards of conduct, discrimination policy, employment performance management, and miscellaneous employment statutes. The Manual states that "All BON employees are expected to read, understand, and comply with the policies and procedures contained in this Handbook and are subject to all applicable Federal and State Laws." Employees sign an acknowledgement form of receipt of the manual and that they have read and understand the policies outlined therein and that signed form is to be maintained in each employees' personnel file.

The agency meets training requirements by providing new employees and staff with online mandatory training resources on the BON Intranet. However, training acknowledgement forms were present in about one-half of the sample tested.

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Professional HR guidance indicates a general 'rule of thumb' as one full time HR generalist per 100 staff. An HR generalist is one who works with hiring, policies, benefits, training, etc. The BON currently exceeds 100 FTE and does not have a dedicated Human Resource position. The Director of Operations is experienced, dedicated, and certified by SHRM as a credentialed expert in the HR field. He has performed the HR function for BON for the last 29 years. With BON growth to over 100 FTEs, additional resources for the HR function should be considered.

The 84<sup>th</sup> Legislature implemented new requirements for state agencies to provide certain employees with cybersecurity awareness training that coincides with the distribution of data use agreements, and each biennial update of those agreements. TGC §2054.134 should be reviewed for determination of applicability to the BON and possible additional controls over cybersecurity to be implemented.

There are three recommendations resulting from this audit, relating to the technology training, improving the consistency of required content in personnel files, and additional resources for the HR function. These areas are discussed more fully in the body of this report.

**Acknowledgements**

The BON staff are always cooperative and professional in providing requested audit information, documents, and responses to inquiries and surveys in a timely manner. Their input and assistance provided in the audit process is greatly appreciated.

## **Objectives, Scope, and Methodology**

**Audit Objectives:** The following audit objectives were developed and agreed-upon by the auditor and the client.

**Audit Objective A – Compliance with Laws:**

Review the information provided by client as well as the identified rules, laws, regulations, and information from other sources to determine BON's responsibilities for HR activities. Perform audit procedures to determine if BON's policies and procedures align with identified criteria.

**Audit Objective B – Internal Control Effectiveness:**

Evaluate the agency's controls over activities related to HR management and safeguards identified under the previous objective. Evaluate compliance with federal and state postings visible to employees. Review Personnel files for proper content: applications, employee authorizations, acknowledgements of training and receipt of Employee Handbook / Human Resources Manual.

**Audit Objective C – Communications and Reporting:**

Evaluate reporting processes for required reports to outside agencies, as applicable. Review and evaluate the processes for communications to the Board on matters of interest. Assess availability of internal staff training and communications.

**Scope:**

The scope of the audit was limited to FY-2017 year-to-date reports and processes and controls currently in place.

**Methodology:**

Meetings were held with the Operations Director, who also serves as the agency's Human Resource Director. Meetings discussed the processes and controls around the BON HR procedures and plans. The SAO's HRMS Inventory for state agency guidance was used to compare the agency's compliance with requirements and recommended controls. We requested and reviewed documents including written policies, procedures, and reporting documents.

**Sources of Information & Criteria:**

Texas Human Resources Management Statutes Inventory (SAO Report 16-301)  
BON's Human Resources Manual

## **Audit Results and Recommendations**

The results and recommendations presented in this section represent the conclusions of the internal audit program which was developed based on audit objectives established and agreed upon with the BON management.

### **Audit Objective A – Compliance with Laws and Regulations**

The SAO provides the Texas Human Resources Management Statutes Inventory (Inventory) as a guide to state agencies. It was first published in 1972 and is updated every two years. It is a compilation of major state and federal laws that apply to human resources management. The 20<sup>th</sup> edition of the Inventory, which reflects changes made in the 84<sup>th</sup> Legislative Session, was used for compliance testing in this audit.

### **Results and Conclusions:**

We identified compliance requirements within the Inventory to test against BON's policies, procedures, and other guidance. We selected and tested compliance with 88 elements of the Inventory, three of which were not applicable to BON. We found the BON to be in 91% compliance with (77/85) the applicable Inventory elements tested. The three elements that did not apply to BON were generally due to the smaller size of the agency (less than 500 employees). Our evaluation concludes the BON to be in material compliance with the HRMS Inventory at the time of this audit.

Opportunities for Improvement were found in Chapter 18 of the Inventory, on Training. The review of training requirements identified the following two areas that need follow-up by the BON to ensure full compliance:

Coordinated Technology Training – relates to technology training for the BON's IR staff, available through DIR. *TGC 2054.122*

Cybersecurity Awareness Training – relates to providing cybersecurity awareness training to staff that coincides with an agency "Data Use Agreement". This training is required for all employees who handle sensitive information, including financial, medical, personnel, or student data. The data use agreement is to be reviewed biennially. Employees are to sign the initial agreement and each update to the agreement. The signed agreements should be maintained in the personnel files. *TGC §2054.134*

There are twenty-one Chapters in the HRMS Inventory. We tested for compliance with fourteen of those Chapters. The BON has supported and documented compliance in the agency HR Manual for the following Chapters:

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CH 1	Standards of Conduct
CH 2	Employment Discrimination and Anti-Retaliation Laws
CH 3	Employee Recruitment and Selection
CH 4	Federal Requirements: FLSA and FMLA
CH 5	State & Holiday Compensatory Time
CH 6	Position Classification Plan
CH 11	General Leave Provisions
CH 12	Miscellaneous Leave Provisions
CH 14	Military Leave and Employment Rights
CH 17	Additional Benefits
CH 18	Training
CH 19	Unemployment Insurance Compensation
CH 20	Worker's Compensation
CH 21	Miscellaneous Provisions

The remaining Chapters that were beyond the scope of this Audit and not included in the test work for this audit. Those Chapters excluded from this audit were:

CH 7	Positions Exempt from Position Classification Plan
CH 8	Salary Administration
CH 9	Employee Compensation
CH 10	Payroll and Personnel Reporting
CH 13	State Employee Holidays
CH 15	Insurance Programs
CH 16	Retirement

The Human Resource Manual is updated annually and accessible on the agency's intranet. This is the primary guidance available to staff and it is current, with the last update in June of 2016. Our review concludes that the BON that needs to consider applicability of various requirements in Chapter 18 of the Manual on Training, particularly as it relates to Technology and Cybersecurity training.

**Recommendation #2017-1-01 Review HRMS Inventory for applicability.**  
Review and assess actions needed for compliance with Chapter 18.

**Management Response #2017-1-01** *The BON staff agree with this recommendation. The BON IT staff have provided three types of training in the area to include Risk Awareness, a Cybersecurity newsletter and annual training at a general staff meeting. We will implement a data use agreement.*

*Responsible party: Operations Director and Information Resource Manager*

*Implementation date: June 1, 2017*

**Audit Objective B – Internal Control Effectiveness:**

Evaluate the agency's controls over activities related to HR management and safeguards identified under the previous objective. Evaluate compliance with federal and state postings visible to employees. Review Personnel files for proper content: applications, employee authorizations, acknowledgements of mandatory training and receipt of Employee Handbook / HR Manual.

**Results and Conclusions:**

While at the BON offices I tested for required federal and state postings for employees according to the HR Management Statutes Inventory. The required postings were verified as being in place at the BON. All required postings were found in a very public area, on bulletin boards in the kitchen area. The location is central to the office and easily visible by employees. Postings were current and in good shape.

Personnel files should contain documentation supporting initial hire activities, employee application, employee acknowledgments of employment policies, possibly including code of ethics, conflicts of interest, or confidentiality agreements, required training affirmations, emergency contact information, etc. Payroll files should retain documentation supporting payroll deduction authorizations such as direct deposit authorizations, insurance plan selections, charitable contribution deductions, and other documents related to payroll.

Documentation supporting personnel actions, performance evaluations, authorization to hire, employment applications, and emergency contact information were consistently documented in personnel files, representing five of the six elements tested in file content. Documentation weaknesses noted were in the absence of signed employee statements verifying receipt of the employee manual and acknowledgement of required trainings. The required signed acknowledgement of receipt of the Employee Policies was not located in two-thirds of the files reviewed. An agency-wide in-service to reiterate employee policies and obtain current signed acknowledgments in the files is suggested.

**Recommendation #2017-1-02:** Ensure that required documentation is in personnel files. Several employee statements or signed acknowledgements are required to be maintained in personnel files, such as initial EEO training, receipt of policies and procedures, and data use agreements. Checklists and periodic spot audits are general controls to ensure completeness of supporting documentation in personnel files.

**Management Response #2017-1-02:** *The BON staff agree with this recommendation. Although the required acknowledgements are provided to all new staff, we have not monitored their receipt back to the HR Office.*

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*Responsible party: Operations Director and Chief Accountant*

*Implementation date: June 1, 2017*

**Audit Objective C – Communications and Reporting:**

Evaluate reporting processes for required reports to outside agencies. Inquire about staff training and communications. Review and evaluate the processes for communications to the Board on matters of expressed interest, such as diversity.

**Results and Conclusions:**

External reports identified are generally compiled and submitted by the finance division. HR monitors and reports to the board on turnover on a quarterly basis, based on the EEO stats report. A review of the list of reports provided to oversight agencies indicates required dates to the various outside reporting entities, such as the Comptroller, SAO, ERS, etc. External reports are based on data from the USPS system which has been reconciled and reviewed prior to issuance.

Internal reports include diversity statistics that the Board is interested in reviewing periodically. The data for this report is derived from the EEO reports.

Some risks identified by HR staff related to IT include –

- The legacy system built on outdated software
- Building limitations: infrastructure and bandwidth
- Moving to a new paperless licensing system next year

**Recommendation #2017-1-03:** Increase resources needed to support the HR function at BON. With the increase in FTEs, training requirements, and anticipated technological changes, additional resources for the HR function should be considered.

**Management Response #2017-1-03:** *The BON staff agree with this recommendation and will take this into consideration during the next budget cycle.*

*Responsible party: Operations Director and Executive Director*

*Implementation date: September 1, 2019*

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## **Report Distribution Page**

### **Texas Board of Nursing**

Kathy Shipp, MSN, RN, FNP, Board President  
Deborah Bell, CLU, ChFC, Board Liaison for Internal Audit

Katherine Thomas, MN, RN, FAAN, Executive Director  
Mr. Mark Majek, Director of Operations

### **Oversight Agencies**

Governor's Office of Budget and Planning, and Policy

Legislative Budget Board

Sunset Advisory Commission

State Auditor's Office