



Lexington-Fayette Urban County Government
OFFICE OF INTERNAL AUDIT

INTERNAL AUDIT REPORT

DATE: August 31, 2011

TO: Jim Gray, Mayor

CC: Richard Moloney, Chief Administrative Officer
Janet Graham, Commissioner of Law
Leslie Jarvis, Acting Director of Human Resources
Phyllis Cooper, Director of Accounting
Susan Straub, Communications Director
Urban County Council Members
Internal Audit Board Members

FROM: Bruce Sahli, Director of Internal Audit

RE: Hiring Process Improvements

Background

The Office of Internal Audit has completed a review of allegations of improper hiring practices brought to our attention by an LFUCG employee. As reported to the Internal Audit Board, our review found no credible evidence of improper hiring or promotion practices related to the specific allegations, but did identify opportunities for improvement in the hiring process and related areas. Those opportunities for improvement are included in this report.

Statement of Auditing Standards

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to

afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity, or function under review. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

Audit results are based on observations, inquiries, transaction examinations, and the examination of other audit evidence and provide reasonable, but not absolute, assurance controls are in place and are effective. In addition, effective controls in place during an audit may subsequently become ineffective as a result of technology changes or reduced standards of performance on the part of management.

Priority Rating Process

To assist management in its evaluation, the findings have been assigned a qualitative assessment of the need for corrective action. Each item is assessed a high, moderate, or low priority as follows:

High - Represents a finding requiring immediate action by management to mitigate risks associated with the process being audited.

Moderate – Represents a finding requiring timely action by management to mitigate risks associated with the process being audited.

Low - Represents a finding for consideration by management for correction or implementation associated with the process being audited.

SUMMARY OF AUDIT FINDINGS

Finding #1: PeopleSoft Employment History Screen Data Field Update Needed **Priority Rating: High**

Condition:

Per Division of Human Resources management, candidates applying for jobs at LFUCG must now apply on-line using the PeopleSoft HCM Module (with the exception of some temporary seasonal positions in Parks & Recreation and the School Crossing Guards in the Division of Police). We noted that the PeopleSoft HCM Employment History screen does not require applicants to list all jobs held by an employer, just their start and end dates at an employer and their ending job title.

Effect:

Job applicants at LFUCG are partly evaluated based on their time of service with each job they have held, and not just their ending job duties. Unless an application is accompanied by a resume or other documentation providing details of job experience, the current PeopleSoft HCM Employment History screen makes it possible for an applicant to misstate their complete job experience and for Human Resource employees to therefore erroneously evaluate a candidate's job experience.

Recommendation:

The PeopleSoft HCM Employment History screen needs to be updated to include data fields requiring the applicant to list all jobs held at an employer and not just their ending job title, along with the start and ending dates for each job held.

Acting Director of Human Resources Response:

Verbiage will be added to the information already provided on the "Enter Employment Details" section that will read something to the effect of, "If you held more than one position for the particular company, please list each position as a separate employment entry."

Commissioner of Law Response:

On the application instruction page, it states as follows:

- **You must complete the entire application before you submit.** It is important that your application show all relevant information in the appropriate sections. Once you submit, you cannot go back and edit or change the application.
 - In Section one (1), you will be asked to provide your employment preferences.
 - **In Section two (2), you will be asked to provide information about your education and work experience.**
 - **Note: Multiple positions with the same employer should be listed separately.**
 - Section three (3) contains the application questionnaire specific to the position.
 - In Section four (4), you will be asked to provide references and addresses.
 - In Section five (5), you will be asked to provide military service information (if applicable).
- **Resumes will not be accepted in lieu of an application.** Resumes cannot be substituted for an application, but may be uploaded as an attachment. Required documents to verify your education, training or certification/licenses, may also be uploaded as attachments when requested.

As you can see, applicants are advised to provide job information concerning multiple jobs with the same employer; however, as stated above in the acting director's response, we will add additional verbiage in the "Enter Employment Details" section.

Based on feedback received by Human Resources concerning the Talent and Acquisition Module, we recommend that the module be reviewed by Enterprise Solutions and Human Resources to make the module more user friendly.

AUDITOR'S NOTE: It is agreed that the instructions direct the applicant to provide job information concerning multiple jobs held with the same employer. However, our audit noted a specific example where an LFUCG employee applying for another job within LFUCG entered his LFUCG start date and end date (apparently the date he applied for the job in question) and his ending job title as specified by the HCM Employment History data entry field descriptions. He did not list other jobs held at LFUCG, and the actual HCM Employment History screen could lead a user to think this was not necessary (despite other instructions to the contrary).

In this instance, the employee also provided a copy of his resume along with his application, and an HR employee correctly used the resume to determine work experience as allowed by HR procedures. Had the resume not been provided with the application (and resumes are not required), the HR employee would not have had sufficient information to ensure a correct calculation of work experience.

Finding #2: Proof of Candidate Education & Professional Training Should be Retained

Priority Rating: High

Condition:

The Division of Human Resources is responsible for verifying that education and professional training requirements are met by candidates applying for jobs within LFUCG (e.g., college diplomas, professional certifications, licenses, etc.). Discussions with Human Resources personnel and examination of related documentation indicates that Human Resources employees write their initials on job applications to indicate their verification of diplomas, professional certifications, licenses, etc. but do not retain copies in the candidate's file.

Effect:

The absence of applicant documentation to support the existence of required educational and professional qualifications reduces the effectiveness of hiring process documentation.

Recommendation:

Copies of required educational and professional qualifications should be obtained from applicants by Human Resources personnel and included as part of the eligible candidates packet Human Resources provides to hiring officials.

Acting Director of Human Resources Response:

Since the implementation of PeopleSoft, all documents are scanned into PeopleSoft. If the documents are not included with the application, then the person's application is considered incomplete. Documents are scanned into PeopleSoft either by the applicant when he or she submits his or her application or if the applicant is unable to scan the documents, he or she may bring them to HR and the scanning is done for the applicant.

To ensure this practice continues and is consistent, we will specify in our process manual that a copy of any transcripts, diplomas, certifications, etc. must be scanned and maintained in the file.

Commissioner of Law Response:

Concur with the Acting Director's response.

Finding #3: Management Responsibility for Ensuring Professional Licenses & Certifications Remain Current Should Become Policy

Priority Rating: Moderate

Condition:

The Division of Human Resources is responsible for verifying that professional training requirements are met by candidates applying for jobs within LFUCG (e.g., professional certifications and licenses). However, it is the position of Human Resources management that it is the responsibility of the employee's Director or manager to ensure all required certifications and licenses remain current.

In our opinion, this is a reasonable expectation on the part of the Division of Human Resources, but it is not apparent that this responsibility has been properly conveyed to management throughout the LFUCG.

Effect:

Without a clearly defined responsibility on the part of Directors or managers to ensure required licenses and certifications held by employees are current, training required to maintain up-to-date professional status may not be obtained, increasing the risk to LFUCG that various professional skills are not maintained at sufficient levels.

Recommendation:

An LFUCG policy should be developed that clearly defines the responsibility of Directors and/or managers to have a process in place to verify that required professional certifications and licenses held by employees under their supervision are kept current through appropriate training.

Acting Director of Human Resources Response:

We will review the capabilities through PeopleSoft and develop a procedure for reviewing and verifying licensure requirements. We will obtain a list of all employees who were required to have a license upon hire by September 30. We will have a method in place for annual licensure review by November 1, 2011.

Commissioner of Law Response:

Concur with the Acting Director's response.

Finding #4: Recommended PAQ Improvements Not Addressed

Priority Rating: Moderate

Condition:

In March 2008 the Office of Internal Audit conducted a Position Analysis Questionnaire (PAQ) Review. PAQs are used in the classification of new positions and the reclassification of existing positions within the Mercer System. One of the findings contained in that report noted that the PAQ process needed improved communication and guidance to aid Directors and managers in the completion of PAQ's designed to establish appropriate job specifications. The former Director of Human Resources responded that a new and simplified version of the PAQ would be created to address this issue; however, this has not occurred.

Effect:

The simplification of PAQ's with detailed instructions for completion was agreed to by the former Director of Human Resources in order to improve the process for establishing appropriate job specifications. Failure to complete this represents an unaddressed process improvement opportunity.

Recommendation:

Human Resources Management should begin the process of creating a new and simplified version of the PAQ with related written instructions as previously agreed to in order to improve communication and guidance in the PAQ completion process.

Acting Director of Human Resources Response:

The Position Analysis Questionnaire (PAQ) is currently only used for creating new positions. I am unclear on the justification or reasoning behind modifying this document without further review and study.

Commissioner of Law Response

The PAQ is currently only being used for the creation of new positions. It is the document that is used to assist the Division of Human Resources with the point factoring system developed by Mercer to assess a pay grade to a position. It would be difficult to revise the form and continue using the current point factor system. However, it would be helpful to review the March 2008 PAQ audit review to determine if there are changes that can be made to the PAQ that would not affect the point factor system currently used by Human Resources. Please provide a copy of the March 2008 review at your earliest convenience.

AUDITOR'S NOTE: The 2008 PAQ Report will be provided as requested. It should be noted that in response to this finding in the 2008 report, the previous Director of Human Resources replied, "Human Resources is in the process of creating a new and simplified version of the current PAQ form which will be re-named to avoid any guilt by association. When this new form is presented, Human Resources will incorporate Audit's suggestions concerning communication and use."

Finding #5: CAO Policy Should be Amended to Reflect Elimination of Mercer Committee

Priority Rating: Moderate

Condition:

As stated in CAO Policy #17 (Procedures for Mercer Committee), the Mercer Committee was the officially recognized committee to review and approve the proposed classification of LFUCG positions. That Committee has not met since November 2007 and has been eliminated, with its former duties assumed by Division of Human Resources personnel. However, CAO Policy #17 has not been amended to reflect these changes.

Effect:

Failure to update CAO Policy #17 to reflect changes in LFUCG job classification processes could result in confused expectations among LFUCG employees and misinterpreted standards of performance among Human Resources personnel.

Recommendation:

It is recommended CAO Policy #17 be amended to address the elimination of the Mercer Committee and the transfer of its duties to Division of Human Resources personnel.

Acting Director of Human Resources Response:

CAO Policy #17 will be reviewed and recommendations will be delivered to the CAO.

Commissioner of Law Response:

Concur with the Acting Director's response.

RISK OBSERVATION

Standards for the professional practice of internal audit stipulate that it is the Office of Internal Audit's responsibility to inform management of areas where risk to the organization or those it serves exist. The following observation identifies a risk associated with conflict of interest reporting processes that is not a violation of statutes or policies, but that is considered to be of sufficient importance to deserve mention in this report to ensure senior management's awareness.

Employee Responsibility to Report Conflicts of Interest

According to Section 25-6 of the Code of Ordinances, "No officer or employee, or any immediate family member of any officer or employee, shall directly or through others undertake, execute, hold, or enjoy, in whole or in part, any contract made, entered into, awarded, or granted by the Urban County Government in the case of Urban County Government officers and employees; by the agency in the case of Urban County Government agencies; or by the office of a constitutional officer in the case of a constitutional officer,...". Furthermore, The LFUCG Employee Handbook states an LFUCG employee shall not, "Fail to disclose any direct or indirect personal financial interest in any matter or contract pending before or within a governmental department to the Council".

Section 25-13 of the Code of Ordinances requires various personnel within the LFUCG such as elected officials, Commissioners, Directors, and buyers, etc. to file an annual statement of financial interests with the Ethics Commission. However, neither the Code of Ordinances nor the LFUCG Employee Handbook specifies how employees having no annual financial disclosure requirements should comply with this reporting requirement.

It is recommended the LFUCG Code of Ordinances be amended to specify that all employees are to inform the Council Clerk in writing of any conflicts of interest as specified in the Code of Ordinances and Employee Handbook. This disclosure should also be provided in writing to the employee's Director and the Department of Law.

Commissioner of Law Response:

Changes to Chapter 25 of the Code of Ordinances are normally done with input from the Ethics Commission. We will request that this matter be placed on the Ethics Commission's agenda for guidance to address the issue raised. The Department of Law has in the past been contacted by directors and employees concerning possible conflicts of interest. Advice concerning a conflict is either provided by the Department of Law or a referral is made to the Ethics Commission.