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# REVIEW OF HUMAN RESOURCES MANAGEMENT

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## **Project Team**

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# Executive Summary

## Overview

Texas Facilities Commission's (TFC) processes do not provide reasonable assurance that human resources management goals are accomplished effectively and efficiently and in a manner that complies with federal and state laws, agency policies and procedures. Significant improvements are needed in the agency's hiring processes to ensure the best qualified candidate is selected in an objective and unbiased evaluation of the candidate's knowledge, skills, education, abilities, and experience. Over the last few years, the Human Resources Program (Human Resources) has lacked the continuity in leadership (and staff) to provide the agency with sustained, strategic and proactive guidance in personnel matters. Current Human Resources staff lacks the knowledge, experience and skills to provide the proactive guidance (on human resources management matters) necessary for an agency of this size and diversity. Human Resources processes do not ensure personnel files, records and systems are adequately maintained to ensure data accuracy, completeness and integrity while complying with the State's Data Retention Schedule.

A survey of employee engagement, which was administered as part of this review, found that the respondents were concerned about the agency's high employee turnover, not being treated fairly and the lack of periodic performance evaluations.

Other opportunities for improvement exist in processes regarding employee retention, succession planning, employee performance evaluations, agency policies, resignations, terminations, merits, and promotions.

Human resources management is strategic to the success of the agency. The recommendations included in this report should assist the agency as it prepares for a significant expansion in new construction and deferred maintenance beginning this summer.

The agency's new Executive Director has been responsive to the audit and has initiated actions in an effort to address the issues discussed in this report. Most notably, management has hired a Director of Human Resources, effective April 13, 2015, who will be instrumental in implementing the recommendations in this report.

## Background

Human Resources' functions include overseeing the hiring process, new employees orientation training, processing of personnel actions (such as promotions, demotions, resignations and terminations), preparing various required reports, updating and retaining personnel files, conducting termination interviews, and maintaining all the documentation of human resources management processes.

## **Summary of Management's Response**

*Management agrees with the need for improvements to the agency's human resources processes, and generally agrees with the recommendations to improve human resources at TFC, in order to provide more reasonable assurance that the agency's human resources functions are accomplished in a manner that ensures consistent compliance with all applicable statutory requirements and with agency policies and that also ensures consistent and proper documentation. Many of the specific practices and concerns addressed in the review of human resources management took place under previous management and have already been discontinued prior to or concurrently with the completion of the review. These, as well as other issues included in the review, will be further addressed through the development and implementation of policies and procedures as indicated in more specific detail in the management actions planned that are provided after each individual item in the following sections of this report.*

*Of primary note, a new Director of Human Resources has been selected, with an effective start date of April 13, 2015. The Executive Director will work closely with the Director of Human Resources and will provide full support to ensure that the action items identified in this review are successfully accomplished within the deadlines for completion identified for each item. In summary, these action items include:*

*Changing the organizational structure to make the Director of Human Resources a direct report of the Executive Director.*

*Development and implementation of policies and procedures, with increased oversight, to ensure consistent compliance with, and documentation of compliance with, all statutory requirements and agency policies relating to all aspects of hiring and employment practices, and retention of all official employment-related records.*

*Reinstatement of periodic employee performance evaluations.*

*Development and implementation of supervisory training programs, including training related to performance evaluations, and compliance with statutory training requirements.*

*Efforts to improve staff recruitment and retention, including funding strategies.*

*Development and implementation of a formal succession strategy to ensure continuity of essential agency functions.*

*Management appreciates the efforts of Internal Audit to evaluate the internal controls within the agency's human resources management processes and will diligently undertake the necessary actions to comprehensively address these items.*

## **Closing**

We would like to thank Human Resources staff, agency employees that participated in the survey and those that were interviewed as part of this review for the cooperation and assistance provided to the audit staff during this audit. For questions or additional information concerning this audit report, please contact Amanda Jenami at 512-463-1438.

# Objectives and Conclusions

The overall objective of this audit was to determine the extent to which strategic and operational results and outcomes are achieved in an efficient and effective manner and to determine compliance with laws, policies, regulations and rules.

The audit focused primarily on human resources management activities from September 1, 2012 to December 31, 2014. Fieldwork was conducted in phases from April 2014 through March 2015. The detailed audit objectives and conclusions are described next.

## Objective 1 – Operational Effectiveness

### **1.1 Determine the extent to which the agency’s processes ensure human resources management goals are accomplished in an effective manner.**

Over the last few years, Human Resources has lacked the continuity in leadership (and staff) to provide the agency with sustained, strategic and proactive guidance in personnel matters. Human Resources does not have a formal mission statement and goals to provide direction for managing human resources management processes. In addition, it appears that Human Resources has operated in a crisis management mode since around 2011. The absence of a clear strategic vision for the agency’s human resources operations has increased the risk of ineffectiveness and noncompliance with human resources related requirements. Staff does not perceive Human Resources as a trusted advisor mostly because of the current organizational structure. Management should consider changing Human Resources’ reporting structure to where it reports directly to the Executive Director. Management should hire a seasoned, credentialed Human Resources director to fill the leadership gap within Human Resources.

### **1.2 Determine the extent to which the agency’s human resources function has the knowledge, skills, abilities and resources necessary for optimal goal accomplishment.**

Current Human Resources personnel lack the knowledge, experience and skills to provide the proactive guidance (on human resources management matters) necessary for an agency of this size and diversity. Discussions with agency supervisors indicated that they look to Human Resources for guidance on rules and procedures in relation to human resources management. A benchmark of the agency’s Human Resources expertise and staffing levels against those of similar agencies found the agency’s to be lacking. The current team is not empowered to make decisions.

### **1.3 Determine the extent to which agency processes cultivate a positive work environment.**

The agency has not performed an employee engagement survey to gauge the level of employee satisfaction in more than 6 years. In the employee satisfaction survey which was administered as part of this review, the respondents were concerned about the agency's high employee turnover, employees not being treated fairly and the lack of periodic performance evaluations. Happy employees are much more likely to provide high-quality service, stay with the agency longer and promote the agency in the community. Management should perform periodic anonymous employee satisfaction surveys and take heed of the results.

### **1.4 Determine the extent to which agency processes ensure employee retention.**

The agency has not developed formal staff retention strategies. This may have been due to the lack of sustained leadership in Human Resources. While state agencies will always struggle to compete with the private sector, quite a large portion of the agency's turnover is to other state agencies. The agency should provide employees with the benefits, flexibility and a work environment comparable to those offered by other agencies.

### **1.5 Determine the extent to which the agency's succession planning processes ensure continuity of operations.**

The agency does not have a formal succession plan. Employees over the age of 40 comprise 78% of the agency's fiscal year 2014 workforce and approximately 18% of the agency's current workforce will be eligible to retire by fiscal year 2019. Many of the pending retirements over the next five years are either managers or staff with senior-level technical expertise. The agency should address this risk by ensuring all areas have well-developed written procedures, adequate to provide staff with guidance on its day-to-day duties. In addition, management should develop and implement formal cross-training strategies and an agency succession plan.

### **1.6 Determine the extent to which Human Resources' processes ensure personnel files, records and systems are adequately maintained to ensure data accuracy, completeness and integrity while complying with the State's Records Retention Schedule.**

Human Resources' processes do not adequately ensure that personnel files, records and systems are maintained to ensure data accuracy, completeness, integrity, and compliance with the State's record retention schedule. A review of relevant personnel files for evidence of federal government's selected service registration or exemption verification requirements, Consolidated Omnibus Budget Reconciliation Act (COBRA) notifications, applicant selection documentation, employee separation checklists and deletion of terminated employees' access to the agency's

information systems found high levels of noncompliance. HR should perform a completeness check of the selection folders before each hiring decision is approved and ensure the folders are kept intact for the remainder of the retention period.

The Personnel Action Form (PAF) system does not track changes made to the personnel action data forms once they are approved. The review found instances where PAF data (e.g. termination dates) were changed after approval, without re-approval. This does not provide assurance of data integrity.

### **1.7 Determine the extent to which management has developed and implemented written policies and procedures sufficient to guide staff in carrying out its human resources management duties.**

The agency does not have a process to ensure Human Resources policies are formally reviewed and (where necessary) updated every three to five years. The review did not find evidence of a formal review and (where necessary) an update on more than 60% of Human Resources policies. The initial fieldwork phase found that the agency's Equal Employment Opportunity (EEO) policy and accompanying letter from the Executive Director were dated March 10, 2010. The Texas Government Code Chapter 2152, Section 2152.109, requires the EEO policy statement to be updated on an annual basis. A number of Human Resources policies are outdated and not aligned with current practice. Management is aware of this issue and is in the process of reviewing and (where necessary) updating HR policies. This is especially urgent as the Texas Workforce Commission's review of TFC's personnel policies (per Labor Code § 21.453) is due in a few months.

The agency has discontinued certain good practices based on verbal instructions from management without formal rescindment or suspension of the relevant policy. Some of these practices include employee performance evaluations (both end-of-probationary period and annual) and the nepotism data form, etc.

Human Resources does not have up-to-date formal written procedures to help guide Human Resources staff in carrying out its day-to-day duties. Most of the "procedures" go back to 2011 and earlier. In addition, Human Resources has not developed detailed written procedures to guide supervisors in the human resources management aspects of their day-to-day duties. Such procedures would include detailed instructions on hiring and performance evaluations.

### **1.8 Determine the extent to which management has provided supervisors with training to enable them to carry out their day-to-day supervisory duties in a positive work environment.**

The agency does not have a supervisory training program. Management should develop and implement supervisory training that is relevant, timely and linked to agency strategies and day-



to-day behavior, including hiring, coaching, teambuilding, performance evaluations, customer service and creating performance plans.

## **Objective 2 – Hiring Practices**

### **2.1 Determine the extent to which the agency has developed and implemented hiring policies and procedures to ensure compliance with federal and state laws and agency requirements.**

The review found opportunities for improvement in the agency's compliance with federal, state and agency EEO requirements. For 16% (5 out of 32) of the new hires reviewed, the position was posted for less than 10 days. They were posted for 3, 5, 6 and 7 days. In three of these cases, the hired candidate was the only one interviewed for the position. In one of these cases, the selected candidate was interviewed before they submitted their application and before the position was posted. Both the interview and application (6/19/2014 and 6/27/2014, respectively) took place before the job posting (7/9/2014). To ensure everyone is given equal opportunity to apply for the position, the position should be posted before any candidate can apply and interview for the position.

### **2.2 Determine the extent to which the agency's hiring practices ensure the best qualified candidate is selected in an objective and unbiased evaluation of the candidate's knowledge, skills, education, abilities and experience.**

Significant improvements are needed in the agency's hiring processes to ensure the best qualified candidate is selected in an objective and unbiased evaluation of the candidate's knowledge, skills, education, abilities and experience. A review of 32 hiring decisions found that the agency lacks a robust consistent applicant screening process without which it is not clear how applicants are screened for interview. The review found instances where only one candidate was interviewed and others where there was no evidence that the hired candidate was interviewed. While Human Resources performs prior employment history verification, the agency does not seek references regarding the prospective employee's job performance. In addition, the agency does not check prospective employees' credentials. These types of checks go a long way in verifying the potential employee's knowledge, skills and abilities.

### **2.3 Determine the extent to which the agency's hiring processes provide reasonable assurance that confidential information is protected, and processes are performed efficiently and effectively.**

Opportunities for improvement exist in Human Resources' protection of confidential information. Human Resources staff has not signed confidentiality statements to help protect the confidentiality of the agency's personnel information. The review determined that staff from other program areas has assisted in checking the completeness of personnel files. This practice is not ideal.

## **2.4 Determine the extent to which vacancies are filled in a timely manner.**

Agency hiring procedures do not ensure key vacancies are filled in a timely manner. For example, the Chief Financial Officer vacancy took approximately 16 months to fill. There is a risk that critical services could be disrupted and that remaining employees could get burnt-out from assuming extra duties for extended periods of time. The stress could lead to low morale which could, in turn, lead to more employee turnover.

## **Objective 3 – Employee Training**

### **3.1 Determine the extent to which the agency’s processes ensure employees are provided with the state-required training.**

Opportunities for improvement exist in the agency’s compliance with state-required training. Thirty-one percent (10 out of 32) of the new hires reviewed were not provided with EEO training within 30 days of hire. The Texas Labor Code, Section 21.010 requires the agency to provide new hires with EEO training by the 30<sup>th</sup> day of their employment. The agency should provide the new hire with a link to the online training as soon as they have access to the agency portal.

### **3.2 Determine the extent to which the agency provides employees with ethics training.**

While Human Resources requires new hires to sign an ethics policy receipt at orientation, the review did not find evidence of ethics training for all (32 out of 32) new hires. Ethics training aimed at equipping employees with the skills to recognize ethical dilemmas and providing them with methodologies and strategies for resolving such dilemmas is crucial for high standards of ethical conduct.

### **3.3. Determine the extent to which the agency provides new hires with training on policies and procedures.**

The agency has not provided new employees with orientation training on a consistent basis. The review could not find evidence of orientation training for 25% (8 out of 32) of the new hires reviewed. Orientation training provides new hires with useful information on the agency’s various policies, regulations, rules and procedures related to their employment. Not providing this training as close to the hire date as possible could be detrimental to the employee’s success.

## **Objective 4 – Employee Performance Evaluations**

### **Determine the extent to which agency processes ensure employees are provided with formal periodic performance evaluations.**

Current agency processes do not provide employees with formal performance evaluations on a periodic basis. The agency discontinued the practice of requiring supervisors to perform formal

evaluations of their employees' performance at the end-of-probationary period and annually thereafter. In addition, the agency has also discontinued requiring supervisors to prepare formal performance plans for new hires. The end-of-probationary period evaluation helps the supervisor develop and communicate performance standards and objectives, set aside time to observe the employee, provide feedback and evaluate the employee.

The performance of all employees should be evaluated at least annually to inform them (the employees) of the quality of their work, identify those areas needing improvement, set specific performance objectives, and provide an opportunity to discuss career goals and the support needed to meet those goals. The agency should develop robust tools for both probationary and annual evaluations, train all supervisors on how to use them and resume requiring employee evaluations.

## **Objective 5 – Employee Separations**

### **Determine the extent to which the agency's separation processes include controls to ensure compliance with federal, state and agency requirements.**

Current separation processes do not ensure compliance with federal, state and agency requirements. Forty-one percent (14 out of 34) of the separations (resignation and terminations) reviewed did not have evidence of COBRA benefits notification, as required by the federal government. In 18% (4 out of 22) of the resignations tested, the employee was granted sick leave after resigning i.e. they remained on the agency payroll until their sick leave balance had run out. The State Auditor's Office's (SAO) Human Resources Management Statutes inventory states that "there is no authority to pay out an employee's accrued but unused sick leave balance upon termination." Further, 68% (15 out of 22) of the resignations reviewed did not have evidence of Human Resources' notification regarding the State's exit survey. The surveys are important – the SAO compiles data (on reasons people choose to leave state government) from all state agencies and higher education institutions and reports to the Governor and the Legislature. Furthermore, agency termination processes do not ensure agency assets are safeguarded. For 32% (11 out of 34) of the separations reviewed, there is no evidence that the employee returned their keys, ID card and other agency assets that may have been assigned to them.

## **Objective 6 – Merits and Promotions**

### **Determine the extent to which agency processes ensure merits and promotions comply with agency requirements.**

Current merit and promotion practices do not ensure all agency employees are given equal consideration. The supplemental evaluation supports the merit but does not ensure everyone is considered the way annual performance evaluations for all employees would. The review found a number of promotions (to managerial positions) that should have been competitive, in accordance with agency policy. Twenty-five percent of the merits reviewed were not supported by a supplemental evaluation. For 92% (11 out of 12) of the merits that were supported by a supplemental evaluation, the evaluation was not signed by the employee.

## **Objective 7 – Reporting**

**Determine the extent to which human resources processes ensure reporting is performed in a manner that ensures completeness, data integrity and timeliness.**

The agency processes have sufficient controls to ensure state reporting requirements are met. We reviewed the agency's compliance with five reporting requirements, including EEO Policy Statement (as required by Gov't Code § 2152.109, amended by Gov't Code § 2052.003(d), EEO Report (as required by Labor Code § 21.552(a)), FTE State Employees Report (as required by Gov't Code § 2052.103(a), (b)), Veterans Employment Preference Report (as required by Texas Gov't Code § 657.008(a) and the Minority Hiring Practices Report (as required by Labor Code §21.504). The EEO Policy Statement had not been updated annually. Other than that, the review found no issues.

## **Objective 8 – Follow-up of Sunset Review**

**Determine the extent to which the agency has implemented the recommendations from Sunset Report, Senate Bill 211, 83<sup>rd</sup> Leg., regarding conflict of interest.**

The agency has fully implemented Senate Bill 211 requirements regarding conflict of interest. The agency revised its policy *Conflict of Interest: Outside Employment and Professional Activities* to conform to new statutory requirements.

# Detailed Issues with Management Responses

## 1. Operational Effectiveness

### 1.1 Operational Effectiveness: Human Resources' Staffing

Over the last few years, Human Resources has lacked the continuity in leadership (and staff) to provide the agency with sustained, strategic and proactive guidance in human resources management. Currently, the agency does not have a Human Resources manager/director. The agency has had similar gaps in the past and periods where the division has had an acting manager for two to three months. Human Resources has experienced high turnover which has contributed to its difficulty in providing adequate controls over the agency's human resources operations. Human Resources has been under the direction of 5 different directors/ managers in the period November 2011 to September 2014 – a little less than three years. The agency needs continuity in this key position. It needs a seasoned, credentialed Human Resources director to help deal with the numerous regulatory requirements and issues arising from the diversity of the workforce.

Current Human Resources personnel lack the knowledge, experience and skills to provide the proactive guidance (on human resources management matters) necessary for an agency of this size and diversity. A benchmark of the agency's Human Resources expertise and staffing levels against those of similar agencies found ours to be lacking.

Human Resources does not have a formal mission statement to provide direction for managing the human resources management processes. The absence of a clear strategic vision for the agency's human resources operations has increased the risk of ineffective and noncompliance with human resources related requirements.

Agency staff does not perceive Human Resources as a trusted advisor mostly because of the current organizational structure.

### Recommendations

Management should improve the effectiveness of the Human Resources function by:

- (i) Hiring and retaining a seasoned credentialed Human Resources director to lead Human Resources staff in providing the agency with guidance on personnel matters.
- (ii) Changing Human Resources' current reporting structure by having them report directly to the Executive Director.

- (iii) Working with the Human Resources director, developing and implementing a mission statement, formal goals, performance measures and targets for the Human Resources function.

### **Management Action Planned:**

*Management agrees that the agency has lacked the continuity in leadership and staff in Human Resources over the last few years to provide the sustained level of management and oversight needed to provide adequate controls over the agency's human resources operations. The Executive Director has finished interviewing qualified finalists for the position of Director of Human Resources and a candidate has been selected. The Director of Human Resources will report directly to the Executive Director and will be instructed to work with management to develop and implement the appropriate mission statement, formal goals, performance measures and targets for the Human Resources function as well as to adequate staffing levels are maintained to ensure the operational efficiency of the function.*

### **Responsible Parties:**

*Executive Director*

### **Estimated Completion Date:**

*The newly-hired Director of Human Resources has an effective start date of April 13, 2015. Development and implementation of a mission statement, formal goals, performance measures and targets for the Human Resources function will be completed by September 1, 2015.*

## **1.2 Operational Effectiveness – Work Environment**

The agency has not performed an employee engagement survey to gauge the level of employee satisfaction in more than 6 years. Employment engagement surveys provide employees with an opportunity to provide honest and anonymous feedback on their opinion of the work environment - information that is invaluable to senior management. These surveys provide employees with an opportunity to be actively engaged in creating a positive work environment.

The employee satisfaction survey, which was administered as part of this review, generated a low response rate (of 25%). This suggests that employees do not feel comfortable providing feedback on their work environment. Those that responded to the survey were concerned about employee turnover, not being treated fairly and the lack of periodic performance evaluations. The lowest scoring survey statements were:

- All employees are treated fairly.
- Turnover has not impacted my work unit's ability to effectively perform its function.
- My supervisor reviews my performance with me at appropriate intervals.

To supplement the low response rate, the audit interviewed a number of staff on the agency's processes for hiring, terminating employees and awarding merits. The interviews also discussed the work environment at the agency. The results were consistent with the survey, including:

- Employees did not feel comfortable providing feedback and were afraid of possible retaliation from management.
- They felt that the agency’s merit/ promotions system was not fair.
- They did not perceive Human Resources as a “trusted advisor” partly due to the current reporting structure - Human Resources is seen as there to serve only management and not the average employee.
- Employees were concerned with a “lack of communication from the top” and generally agreed that the agency was not a “fun place to work.”

The agency has not held agency-wide meetings since 2009. This may have added to the divisional silos that exist in the agency.

Many departing employees choose not to take the exit survey. Exit interviews provide valuable information the agency can use to retain the remaining staff. Exit surveys are the most useful source of data about the health of the agency.

## **Recommendations**

Management should cultivate a more positive work environment by:

- (i) Changing the organizational structure to have Human Resources reporting directly to the Executive Director. This should not only empower the Human Resources director to make the changes that are needed but also assist with earning back the trust of staff.
- (ii) Improving communication via agency-wide meetings, and periodic emails on legislative updates and other topics of interest.
- (iii) Improving the work environment by hosting employee appreciation and social events, including administrative professionals’ and bosses’ day.
- (iv) Seeking anonymous employee feedback on the work environment through periodic employee engagement surveys.
- (v) In consultation with the staff, finding ways to make work “fun.”

## **Management Action Planned:**

*Management agrees that having the Director of Human Resources report to the Executive Director will facilitate changes that are needed to ensure the sustained level of management and oversight needed to provide adequate controls over and increase confidence in the agency’s human resources operations. Management will work with the Director of Human Resources to improve agency-wide communications, to hold agency-wide meetings as appropriate within agency operational constraints, to seek anonymous employee input on the work environment through periodic employee engagement surveys and to continue to encourage and support employee committees in their efforts for agency-wide activities such as fundraising events to provide funds for the Annual Chili Cook-Off and employee recognition events.*

## **Responsible Parties:**

*Executive Director*

## **Estimated Completion Date:**

*Immediately upon the start date of the Director of Human Resources and ongoing thereafter*

### **1.3 Operational Effectiveness: Succession Planning**

The agency does not have a formal succession plan. Employees over the age of 40 comprise 78% of the agency's fiscal year 2014 workforce and approximately 18% of the agency's current workforce will be eligible to retire between fiscal year 2014 and Fiscal Year 2019. Many of the pending retirements over the next five years are either managers or staff with senior-level technical expertise. Succession planning is one of the most important investments an organization can make to secure its future. It is inevitable that people are going to leave. The lack of succession planning elevates the risk of a disruption in operations due to key personnel leaving the agency. This is especially relevant since the agency takes a long time to fill key positions. For 13% (4 out of 32) of the hires reviewed, the position was posted for more than 100 days. The CFO position took 16 months to fill.

#### **Succession Planning**

Succession Planning is the process whereby an organization ensures that employees are recruited and developed to fill each key role within the agency. The process prepares employees for advancement into more challenging roles.

#### **Recommendation**

Management should develop and implement a formal succession plan.

#### **Management Action Planned:**

*Management agrees that succession planning is important to ensure continuity of operations when key personnel leave the agency for whatever reason. Management will direct the Director of Human Resources to work with executive management staff and key managers in each program area to develop effective succession plans, including cross training personnel and ensuring adequate documentation of essential procedures to avoid disruption to key functions as a result of the planned or unplanned separation of agency personnel.*

#### **Responsible Parties:**

*Executive Director and Director of Human Resources*

## **Estimated Completion Date:**

*November 1, 2015.*

### **1.4 Operational Effectiveness: Employee Turnover and Staff Retention**

Employee turnover has averaged 16% (48) per year and ranged from 13% to 21% (40 to 62) in the last 4 years, with fiscal year 2013 having the highest. For an agency of our size, this appears too high. High employee turnover is costly i.e. the loss of institutional knowledge, the cost of finding and training suitable replacements, and the damaged morale among the remaining employees. Human resources management research has shown that people leave for three main reasons: compensation, relationship with their supervisor and relationships with their co-workers.



The agency has had problems attracting and retaining project managers, engineers and plumbers due to the agency's uncompetitive salaries. For example, the agency currently has only 5 (three registered and two degreed) engineers, and one plumber. This is not sufficient for the level (approximately \$200 million at a time) of construction and deferred maintenance the agency oversees. In addition, the agency's project managers (as a group) post some of the highest turnover rates. The agency's Facilities, Design and Construction division has experienced an average of 45% turnover in project managers in the last two fiscal years (2013 and 2014). The project manager turnover issue goes back all the way to the late 1990s, yet the agency has not performed periodic compensation surveys to ensure it remains competitive in talent recruitment.

The agency does not formally provide employees with performance feedback and praise for good efforts. In addition, without an annual performance evaluation, it is not clear when the supervisor is expected to formally reiterate goals, roles, responsibilities and expectations.

The agency does not have a supervisory training program. The quality of the supervision an employee receives is critical to employee retention. In addition, the agency has not invested (adequately) in continuing professional development (CPD) other than what is required for professional certification. CPD is important as it assists in ensuring professional employees continue to be competent in their professions. It safeguards the public, the agency and the professional.

Staff interviews found that people do not regard this agency as a "fun place to work." The agency does not have agency traditions to nurture and celebrate such as annual Thanksgiving and holiday season lunches, Christmas door decorating competition and teambuilding outings.

The work environment survey indicated that employees feel they are not able to speak their minds freely within the agency. This could be another major cause of employee turnover – most people want to be consulted in decisions that affect their job.

In addition to these reasons and the work environment issues discussed before, the agency (in some cases) might not be selecting the right people in the first place. The review of new hires found that 22% (7 out of 32) tested left the agency in less than two years, suggesting they may not have been the right person for the job. The right person, in the right job with the right qualifications should be the starting point.

The agency has not developed formal staff retention strategies. The success of the agency is going to be centered on attracting and retaining good talent. While state agencies will always struggle to compete with the private sector, quite a large portion of the turnover is to other state agencies. This suggests that the other agencies provide a better working environment, more flexibility and benefits. The agency does not provide employees with benefits offered by other agencies, including employee assistance program, compensatory time, tele-commuting and periodic salary comparisons (against other agencies).

## **Recommendations**

Management should reduce employee turnover and improve staff retention by:

- (i) Performing periodic compensation surveys (against other agencies and industry).
- (ii) Providing employees with benefits and flexible work conditions comparable to those offered by other agencies, including employee assistance program, and compensatory time.
- (iii) Organizing Thanksgiving and holiday season lunches and other social activities that provide employees the opportunity to meet employees from other divisions in a relaxed atmosphere.

## **Management Action Planned:**

*Management agrees that employee turnover creates significant challenges for the agency and also agrees that hiring and retaining a seasoned Director of Human Resources will help the agency develop and implement an effective strategy to address this issue. Management believes the primary obstacle to staff retention is the agency's lack of compensation competitiveness, especially with other state agencies. Management will work with the Director of Human Resources and budget staff to request funds to address this issue in the next biennial budget cycle and, until that time, will work to accommodate necessary equity adjustments and other salary-related issues to the extent possible within budgetary constraints. Management will work with the Director of Human Resources to develop and implement procedures for performing periodic compensation surveys, including comparisons for similar job classifications in both public and private entities.*

*Given the nature of most agency operations and functions, it is not practical for the agency to offer options that may be available to employees of other state agencies, such as flexible work hours or the ability to work from home. As stated previously, management will also work with the Director of Human Resources to continue to encourage and support employee committees in their efforts for agency-wide activities such as fundraising events to provide funds for employee activities and recognition events.*

## **Responsible Parties:**

*Executive Director and Director of Human Resources*

## **Estimated Completion Date:**

*Immediately upon the start date of the Director of Human Resources and ongoing thereafter.*

## **1.5 Operational Effectiveness: Confidentiality Statements**

Human Resources employees have not signed confidentiality statements to help protect the confidentiality of personnel information. Staff from other program areas has assisted in checking the completeness of Human Resources files. This practice is not ideal.

## **Recommendation**

Management should improve the confidentiality of personnel information by requiring Human Resources staff to sign confidentiality statements. Whenever other agency staff is assigned to assist in Human Resources, they should sign a similar statement before accessing personnel files.

### **Management Action Planned:**

*Management agrees that Human Resources staff, or any other agency staff assigned to assist in Human Resources, need to be made aware that confidentiality is inherent in their job responsibilities. However, this also applies to other agency personnel (e.g., supervisors, managers, and directors) involved in or who have or will need to have knowledge of personnel-related issues (e.g., health-related or FMLA issues or disciplinary matters). Additionally, there are other agency issues that require confidentiality (e.g., situations involving suspected theft, fraud, or misuse of agency resources, litigation and other legal issues, etc.) and there are personnel-related matters that are subject to open records laws. Management will work with the General Counsel, Internal Auditor, and Director of Human Resources to determine the most appropriate method of addressing this issue.*

### **Responsible Parties:**

*Executive Director, General Counsel, Internal Auditor, and Director of Human Resources*

### **Estimated Completion Date:**

*Immediately upon the start date of the Director of Human Resources*

## **1.6 Operational Effectiveness: Written Procedures**

Human Resources does not have formal written administrative procedures to help guide Human Resources staff in carrying out its day-to-day duties.

Human Resources has not developed detailed written procedures to guide the agency's supervisors in the human resources management aspects of their day-to-day duties. Such procedures would include detailed instructions on the hiring process and performance evaluations.

## **Recommendation**

Human Resources management should develop and implement detailed written procedures to help guide Human Resources and supervisory staff in performing its duties.

### **Management Action Planned:**

*Management agrees that written procedures are necessary to ensure effective and consistent operation of the agency's Human Resources functions. Many HR-related activities and processes, such as those related to payroll; benefits enrollment and changes; classification, compensation, and employment status changes; and timesheet reporting, are extensively documented in written procedures developed by the Comptroller of Public Accounts and*

*provided to HR staff. Additionally, the Comptroller's office provides training on the use of their systems and the related written procedures. Management will direct the Director of Human Resources to develop and implement any additional written procedures necessary to ensure effective and consistent operation of the agency's Human Resources functions.*

### **Responsible Parties:**

*Executive Director and Director of Human Resources*

### **Estimated Completion Date:**

*September 1, 2015.*

## **2. Hiring Practices**

Significant improvements are needed in the agency's hiring processes to ensure the best qualified candidate is selected in an objective and unbiased evaluation of the candidates' knowledge, skills education, abilities, and experience. The review found opportunities for improvements in the areas of applicant screening, interviewing, reference checks, new hire performance plans, evaluations and job postings.

### **2.1 Evaluation of Applicants**

The current applicant evaluation process is inconsistent. It does not adequately ensure that all applications are objectively evaluated. Without a robust applicant-screening process, it is not clear how applicants are screened for interview.

The review found no evidence that all applicants were formally scored against predetermined criteria for 94% (30 out of 32) of the files reviewed. Formally scoring ALL applicants against predetermined selection criteria is critical in demonstrating that all applicants were given serious consideration. This is useful in defending against claims of discrimination (should any arise).

In some cases the hired candidate was not formally screened against predetermined criteria. Sixty-nine percent (22 out of 32) of the selection files reviewed did not have evidence that the hired candidate's application was formally scored against a predetermined criteria.

Further, Human Resources does not maintain an application log for each posting, so the audit could not determine if the selection file contained all the applications for the posting. Furthermore, Human Resources does not always stamp applications "received" upon receipt.

### **Recommendation**

In consultation with hiring supervisors, Human Resources should develop a robust applicant screening tool based on pre-determined and job-related selection criteria for each position. HR should ensure each application was evaluated before the interviewing phase.

## **Management Action Planned:**

*Management agrees that improvements are needed in the agency's hiring processes related to evaluation of applicants. Management will direct the new Director of Human Resources to work in consultation with hiring supervisors in developing sound applicant screening procedures and to ensure consistent and adequate documentation of the screening process related to each job posting.*

## **Responsible Parties:**

*Executive Director and Director of Human Resources*

## **Estimated Completion Date:**

*September 1, 2015.*

## **2.2 Interviewing and Selection**

Opportunities exist for improving the agency's interview pools. Generally speaking, the larger the interview pool the better chance of finding a high quality candidate that will be a good fit to the agency.

The review found no evidence that the hired candidate was interviewed for 22% (7 out of 32) of the files reviewed. There is a risk that the candidate may not be a good fit. Interviews are important because they offer both the agency and applicant a chance to learn if they might fit well together. Interviews convey attributes that a resume and cover letter cannot.

In 19% (6 of 32) of the hiring decisions reviewed, although the agency received many (more than several) applications, only one candidate was interviewed. In each of these cases there was no evidence to justify only interviewing one candidate. In all these instances, the agency went on to hire the one candidate interviewed.

Some interview panels were not consistent. Having the same panel conduct the interviews is one way to ensure that candidates are evaluated in a consistent manner.

Twenty-five percent (8 out of 32) of the files reviewed did not have a selection justification form. The selection justification form provides the hiring supervisor's justification for choosing the selected candidate. In addition, the current form could be enhanced to include explanations of why the rest of the interview pool was not selected.

For 16% (5 out of 32) of the new hire files reviewed, the offer letter was either missing or not signed. Audit staff could not verify if the unsigned letter was the final copy that was sent to the prospective new hire.

## **Recommendations**

Management should improve interviewing procedures by requiring:

- (i) Supervisors to interview candidates before recommending them for hire.

- (ii) Supervisors to interview at least three candidates, especially for managerial positions.
- (iii) Human Resources to maintain a log of all applications received for each posting and to stamp each application “received” upon receipt.
- (iv) Human Resources to ensure offer letters are signed.

### **Management Action Planned:**

*Management agrees that improvements are needed in the agency’s hiring processes related to the interview and selection process. Management will direct the new Director of Human Resources, in consultation with hiring supervisors, to develop and implement sound interview and selection procedures, including the use of interview panels within or across disciplines as appropriate and the development of appropriate interview questions and selection criteria; to ensure hiring supervisors are fully aware of and trained in following the requirements for the interview and evaluation of applicants; and to ensure consistent and adequate documentation of the interview and selection process related to each job posting, including signed offer letters.*

### **Responsible Parties:**

*Executive Director and Director of Human Resources*

### **Estimated Completion Date:**

*September 1, 2015.*

## **2.3 Reference and Credentials Check**

While Human Resources performs prior employment history verification, the agency does not seek references regarding the prospective employee’s job performance. No evidence of reference checks could be found for 100% (32 out of 32) of the files reviewed. References on the prospective employee’s quality and quantity of work, dependability and job knowledge are better indicators of how the prospective employee would perform if offered the job. Reference checks go a long way in verifying the potential employee’s knowledge, skills and abilities.

In addition, the agency does not verify prospective employees’ credentials. This elevates the risk that the agency will hire unqualified applicants.

### **Recommendations**

Management should improve the likelihood of hiring applicants that are qualified, knowledgeable and dependable by performing reference and credential checks. The reference checks should be performed by the hiring supervisor. Human Resources should design a standard form to guide supervisors on the questions to ask during reference checks.

### **Management Action Planned:**

*Management agrees that improvements are needed in the agency’s hiring processes related to checking references and credentials. In today’s work environment, it is increasingly difficult to obtain formal references from prior employers beyond verification of employment. It is even the*

*practice of many state agencies, including TFC, to only verify employment. Management will direct the new Director of Human Resources to develop and implement practical efforts to obtain and document references whenever possible; and to further ensure consistent documentation of verification of prior employment and required credentials.*

### **Responsible Parties:**

*Executive Director*

### **Estimated Completion Date:**

*June 1, 2015.*

## **2.4 Performance Plans and Probationary Period Evaluations**

Current practice does not ensure compliance with the agency's initial employment probationary period policy. There was no evidence of performance plans in 100% (32 out of 32) of the files reviewed. The agency's *Initial Employment Probationary Period* Policy in the TFC Personnel Handbook requires supervisors to "establish an employee performance plan with new employees within 30 calendar days of hire." Performance plans assist in setting and discussing performance standards, expectations and goals. In addition, there is no evidence that the supervisor discussed the duties and responsibilities of the position with the new hire. A formal performance plan and clear evidence that the new hire discussed (and understands) their duties with their supervisor would go a long way in setting them up for success.

The review found no evidence of the 6-month end-of-probationary period evaluation for 100% (32 out of 32) of the files reviewed as required by the agency's *Initial Employment Probationary Period* Policy. Discussion with management indicated the agency has discontinued this practice. The probationary period should be used to ensure that the applicant selected is qualified to perform the job. During this period, the agency should carefully evaluate the employee's performance and general suitability for employment. To make this decision, the supervisor should develop and communicate performance standards and objectives, set aside time to observe the employee, provide feedback and evaluate the employee.

### **Recommendations**

Management should improve compliance with the initial employment probationary period policy by:

- (i) Providing supervisors with training (and coaching) on employee performance plans and evaluations.
- (ii) Requiring supervisors to develop and discuss formal performance plans with new employees within 30 calendar days of hire.
- (iii) Requiring supervisors to provide employees with 6-month end-of-probationary period evaluations.

### **Management Action Planned:**

*Management agrees that improvements are needed in the agency's hiring processes related to performance plans and end-of-probationary period evaluations. Management will direct the new Director of Human Resources to develop and implement the necessary training and procedures to ensure compliance with the initial probationary period policy.*

### **Responsible Parties:**

*Executive Director and Director of Human Resources*

### **Estimated Completion Date:**

*June 1, 2015.*

## **2.5 Duration of Job Postings**

Opportunities of improvement exist in the manner agency postings are administered. For 13% (4 out of 31) postings reviewed, the position was posted for less than 10 days. They were posted for 3, 5, 6, and 7 days. In three of these cases, the hired candidate was the only one interviewed for the position. While the agency uses the "until filled" type of posting fairly significantly, it is not addressed in the human resources policy. Other agencies use the "until filled" category for situations when a posting is expected to take longer than the required ten days to fill.

In one of these "until filled" postings, the selected candidate was interviewed before they submitted their application and before the position was posted. Both the interview and application (6/19/2014 and 6/27/2014, respectively), took place before the job posting (7/9/2014). In addition, the position was only posted for 5 days. To ensure everyone is given equal opportunity to apply for the position, events should occur in reverse order (i.e. the vacancy is posted, those interested submit applications, applicants are shortlisted for interview, applicants are interviewed and the best candidate is selected).

For 1 of the 32 new hires tested, Human Resources could not provide the relevant selection folder. Thus, audit staff could not determine if the position was ever posted, as required by EEO, or whether the new hire even applied for the position and/or if they were interviewed. The State of Texas Records Retention Schedule requires state agencies to retain employment opportunity announcements and employment selection records for a period of 2 years.

### **Recommendation**

Management should require postings to be for a minimum of 10 days, and to reserve the use of the "until filled" category for positions that are expected to take longer than 10 days to fill.



**Management Action Planned:**

*Management agrees that improvements are needed in the agency's hiring processes related to the duration of job postings. Management will direct the new Director of Human Resources to always post job openings for at least 10 working days.*

**Responsible Parties:**

*Executive Director and Director of Human Resources*

**Estimated Completion Date:**

*April 30, 2015.*

**2.6 "Thank You" Letters**

The agency does not send "thank you" letters to all those that took the time to interview with the agency. Human Resources staff informed audit staff that "thank you" letters are only sent to internal candidates and those that interviewed for the higher level positions. Sending "thank you" letters to all applicants interviewed has become a necessary courtesy in this competitive state agency market.

**Recommendation**

Human Resources staff should send "thank you" letters to all applicants interviewed.

**Management Action Planned:**

*Management agrees that improvements are needed in the agency's hiring processes related to the interview process. Management will direct the new Director of Human Resources to implement procedures to ensure letters are sent to each applicant interviewed upon completion of the interview process.*

**Responsible Parties:**

*Executive Director and Director of Human Resources*

**Estimated Completion Date:**

*April 30, 2015.*

**3. Employee Training****3.1. State-required Training**

Agency procedures do not ensure compliance with state requirements. Of the new hires reviewed, 31% (10 out of 32) were not provided with EEO training within 30 days of their hire date. The Labor Code requires the agency to provide new hires with EEO training by the 30<sup>th</sup> day of their employment.

## **Recommendation**

Management should improve compliance with state law by providing new hires with a link to the online EEO training when they get access to the agency portal.

### **Management Action Planned:**

*Management agrees that improvements are needed in the area of state-required employee training. Management will direct the new Director of Human Resources to develop and implement the necessary procedures to ensure compliance with statutory requirements by providing new hires with a link to the online EEO training once the employee has access to the agency portal; and by ensuring consistent documentation of completion of the required training by each employee within the required timeframe.*

### **Responsible Parties:**

*Executive Director and Director of Human Resources*

### **Estimated Completion Date:**

*April 30, 2015.*

## **3.2 Ethics Training**

While Human Resources requires the new hire to sign an ethics policy receipt at orientation, the review did not find evidence of ethics training for 100% (32 out of 32) of new hires. Ethics training aimed at equipping employees with the skills to recognize ethical dilemmas and providing them with methodologies and strategies for resolving such dilemmas is crucial for high standards of ethical conduct.

## **Recommendation**

Management should improve employee training by providing ethics training within the first 30 days of hire and every 2 years thereafter.

### **Management Action Planned:**

*Management agrees that improvements are needed in the area of ethics training for agency personnel. Management will direct the new Director of Human Resources, in consultation with the agency's General Counsel, to develop and implement the necessary procedures to ensure all agency personnel are provided with ethics training on a regular basis and to ensure consistent documentation that each employee has completed the training.*

### **Responsible Parties:**

*Executive Director, Director of Human Resources and General Counsel*

### **Estimated Completion Date:**

*September 1, 2015.*

### **3.3 New Employee Orientation**

The agency has not provided new employees with orientation training on a consistent basis. The review could not find evidence of orientation training for 25% (8 out of 32) of the new hires reviewed. Orientation training provides new hires with useful information on the agency's various policies, regulations, rules, and procedures related to their employment. Current orientation training is too long and should either be streamlined or split into two sessions over two days for improved operational effectiveness. In addition, as part of new employee orientation, new hires would benefit from attending the Commission meeting within their first few months of hire. This would assist with their understanding of how their job fits into the big picture.

#### **Recommendations**

Management should improve new employee orientation by:

- (i) Providing new employees with orientation training within the first 30 days of hire.
- (ii) Streamlining current orientation training.
- (iii) Considering inviting new hires to a Commission meeting within the first 60 days of hire.

#### **Management Action Planned:**

*Management agrees that improvements are needed in the area of consistently providing new employee orientations on a timely basis. Management will direct the new Director of Human Resources to develop and implement the necessary procedures to ensure all new hires at the agency are provided with new employee orientation on a timely basis, ideally within 30 days but not later than within 60 days of their start date, and to ensure consistent documentation that each employee has completed the training.*

#### **Responsible Parties:**

*Executive Director and Director of Human Resources*

#### **Estimated Completion Date:**

*September 1, 2015.*

### **3.4 Supervisory Training Program**

The agency does not have a supervisory training program. Discussions indicate that this is partly because the agency cannot afford it. Unfortunately, the agency cannot afford not to train supervisors. Supervisors are in the forefront of the action and could, if not trained, create a lot of risk for the agency or, if trained, develop and nurture very productive teams. Surveys consistently show that strong front line supervisors, more than the top-level managers, is the most critical factor in engaging an organization's workforce. Many of the supervisors were promoted to their positions because they were good workers. Supervising requires different skills – coaching, counseling, caring, and building credibility with the staff by showing both

functional expertise and relational competence. All of these do not come naturally – they are learned and developed. With good training, lots of coaching and mentoring, along with experience and time, one can become good at it.

The training should be relevant, timely and linked to agency strategies and day-to-day behavior, including hiring, coaching, teambuilding, performance evaluations, customer service and creating performance plans.

### **Recommendation**

In consultation with supervisors, management should develop a training program for supervisors. The training should include such areas as hiring, coaching, teambuilding, performance evaluations, customer service and creating performance plans.

### **Management Action Planned:**

*Management agrees that improvements are needed in the area of supervisory training for the agency personnel. Management will direct the new Director of Human Resources, in consultation with agency executive staff and agency directors, to develop and implement an effective, comprehensive, and practical training program for all agency staff with supervisory responsibilities.*

### **Responsible Parties:**

*Executive Director and Director of Human Resources*

### **Estimated Completion Date:**

*September 1, 2015.*

## **4. Employee Separations**

### **4.1 Employee Separations – Regulatory Compliance**

Current separation processes do not ensure compliance with federal, state and agency requirements. Forty-one percent (14 out of 34) of the separations (resignations and terminations) reviewed did not have evidence of COBRA benefits notification, as required by the federal government. In 18% (4 of 22) resignations tested, the employee was granted sick leave after resigning (i.e. they remained on the agency payroll until their sick leave balance had run out). SAO's Human Resources Management Statutes inventory states that "there is no authority to pay out an employee's accrued but unused sick leave balance upon termination." Sixty-eight percent (15 out of 22) of the resignations reviewed did not have evidence of Human Resources' notification regarding the state's exit survey. The surveys are important – the SAO compiles data (on reasons people choose to leave state government) from all state agencies and higher education institutions and reports to the Governor and the Legislature. This may be partly due to the agency using at least three different checklists for the check-out process.

## **Recommendations**

- (i) Management should improve compliance with state law by not allowing terminating employees to remain on payroll while running their sick leave balances down.
- (ii) Human Resources staff should design an elaborate consolidated process that utilizes a single checklist to ensure all the termination steps are performed by the employee's last day in the office.

### **Management Action Planned:**

*Management agrees that improvements are needed in the agency's employment separation processes. Management will direct the new Director of Human Resources to ensure compliance with state law regarding proper utilization of leave balances, with appropriate documentation, and to develop and implement improvements to the separation process to ensure all required steps are completed, and consistently documented, by an employee's last day in the office.*

### **Responsible Parties:**

*Executive Director and Director of Human Resources*

### **Estimated Completion Date:**

*April 30, 2015.*

## **4.2 Employee Separations – Safeguarding Agency Assets**

Agency separation processes do not ensure agency assets are safeguarded. For 32% (11 out of 34) of the separations reviewed, there is no evidence that the employee returned their keys, ID card and any other agency assets that may have been assigned to them. A review of IT's computer access records indicated that 9% (2 out of 22) of the resignations did not have their system access disabled/deleted until 2-3 months after their departure and 8 % (1 out of 12) of terminations did not have their systems' access removed for more than a month after termination.

## **Recommendations**

Human Resources staff should design an elaborate consolidated process that utilizes a single checklist to ensure all the termination steps are performed by the employee's last day in the office. In addition, Human Resources should work closely with IT to ensure access to information systems is removed timely.

### **Management Action Planned:**

*Management agrees that improvements are needed in the agency's employment separation processes related to safeguarding agency assets. Management will direct the new Director of Human Resources to ensure all required steps are completed, and consistently documented, by an employee's last day in the office, including exit interviews and exit surveys.*

### **Responsible Parties:**

*Executive Director and Director of Human Resources*

## Estimated Completion Date:

*Immediately*

## 5. Merits and Promotions

Current merit and promotion practices do not ensure all agency employees are given equal consideration. The supplemental evaluation supports the merit but does not ensure everyone is considered the way annual performance evaluations for all employees would. In addition, current practice does not ensure compliance with agency policy. The review found a number of promotions (to managerial positions) that should have been competitive, in accordance with agency policy. Twenty-five percent (4 out of 16) of the merits reviewed were not supported by a supplemental evaluation. For 92% (11 out of 12) of the merits that were supported by a supplemental evaluation, the evaluation was not signed by the employee.

Division	# of Merits	Average FTEs	Merit Recipient Percentage	Divisional Total \$
Executive	2	5	38%	4,600
FD&C	20	53	38%	107,403
Fiscal	22	34	65%	54,155
Surplus	6	29	21%	17,400
OIA	2	3	67%	2,760
Legal	1	6	17%	2,500
PREM	38	144	26%	103,901
Risk Mgt.	8	10	80%	30,740

The agency awarded 99 merits during the audit period (i.e. September 1 2012 to December 31, 2014), with the highest merit recipient percentages going to Risk Management, Internal Audit, and Fiscal. The table on the right has more details.

## Recommendation

Management should require merits to be based on annual employee performance evaluation.

## Management Action Planned:

*Management agrees that improvements are needed in the agency's employment merit and promotions practices. Management will direct the new Director of Human Resources to develop and implement the necessary procedures to ensure that all employees are provided with formal performance evaluations at least once a year, with supplemental or more frequent reviews as appropriate; to ensure that all supervisory and management personnel are provided with training related to effectively conducting performance evaluations; and to ensure consistent and adequate documentation of all performance reviews, including signature by all involved parties.*

## Responsible Parties:

*Executive Director and Director of Human Resources*

## Estimated Completion Date:

*September 1, 2015.*

## 6. Policies

### 6.1 Discontinuation of Policies and Practices

The agency has discontinued certain good practices based on verbal instructions from management without formal rescindment or suspension of the relevant policy. Some of these practices include employee performance evaluations (both end-of-probationary period and annual) and the nepotism data form.

## **Recommendation**

Management should consider reinstating the practice of employee performance evaluations and the nepotism data form.

## **Management Action Planned:**

*Management agrees that policies should not be discontinued without formal rescindment or suspension of the relevant policy. Management will direct the new Director of Human Resources to ensure that, if the determination is made to discontinue, suspend or revise any policy, all agency personnel will be provided with the appropriate notification, accompanied with properly documented acknowledgement forms signed by each employee and returned to Human Resources. This is the procedure currently in place for notification to all agency personnel regarding changes to agency policies. Management further agrees that the practice of employee performance evaluations (both end-of-probationary period and annual) should be reinstated, as previously indicated in responses to 2.4 and 5 above. Management will also direct the new Director of Human Resources, in consultation with the General Counsel, to review and make recommendations concerning an appropriate nepotism policy for the agency.*

*Implementation of procedures relating to notifications relating to agency policies will be completed immediately. As stated previously, development and implementation of procedures relating to performance evaluations (both end-of-probationary period and annual) will be completed by September 1, 2015; completion of the review and recommendation concerning an appropriate nepotism policy for the agency will also be completed by September 1, 2015.*

## **Responsible Parties:**

*Executive Director and Director of Human Resources*

## **Estimated Completion Date:**

*August 31, 2015.*

## **6.2 Fraud, Waste and Abuse Policy**

The agency does not have a fraud, waste and abuse policy. While this is not required, the policy would help protect the assets, resources and interests of the agency; to increase the awareness of all employees of the possibility of fraud, waste and abuse; and to govern the reporting and investigation of allegations of suspected fraud, waste and abuse. The policy would help the agency address the Governor's Executive Order #RP36 (dated July 12, 2004) which requires all state agencies to establish a fraud prevention program to prevent, detect and eliminate fraud, waste and abuse in state government.

## **Recommendation**

Management should consider improving agency policies/practices by developing and implementing a fraud, waste and abuse policy.

**Management Action Planned:**

*Management agrees that a policy regarding fraud, waste and abuse would help protect agency assets, resources, and interests. Management will direct General Counsel, in consultation with executive staff and others, to develop and implement such a policy.*

**Responsible Parties:**

*Executive Director and Director of Human Resources*

**Estimated Completion Date:**

*June 1, 2015.*



# Scope and Methodology

The overall objective of this audit was to determine the extent to which strategic and operational results and outcomes are achieved in an efficient and effective manner and to determine compliance with laws, policies, regulations and rules.

The audit focused primarily on human resources activities from September 1, 2012 to December 31, 2014. Fieldwork was conducted in phases from April 2014 through March 2015.

The audit was based upon standards as set forth in Texas Government Codes, State Auditor's Office State Classification Office's Texas Human Resources Management Statutes Inventory, and the Texas Workforce Commission "Especially for Texas Employers" manual, and Labor Law, agency policies and other sound administrative practices. The audit was performed in compliance with the Institute of Internal Auditors' "International Standards for Professional Practice of Internal Auditing."

Additionally, 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our evidence-gathering methods included the following:

- We reviewed applicable laws, rules, and established procedures.
- We reviewed 32 selection folders for applicant screening, interview documentation, selection justification, reference and credential checks.
- We reviewed the personnel files of 32 new hires for evidence of offer letter, orientation training, EEO training, and background checks.
- We reviewed 34 employee separation files for evidence of COBRA and exit survey notifications, and completion of the check-out forms.
- We reviewed 11 promotion and 6 merit actions for compliance with agency policies.
- We conducted interviews with staff.
- We followed up on the Sunset Report, Senate Bill 211, 83<sup>rd</sup> Legislative Session.
- We reviewed relevant previous audit reports including SAO's Review of Construction Project Management at the Texas Buildings Procurement Commission, Report # 05-031, issued in April 2005; and TFC's OIA's Review of the FDC Program, Report # 13-10, issued in November 2013 and OIA's *A Limited Review of the FDC Operations and Cost Accounting Methodology*, Report # 10-03.

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## **TFC Mission Statement**

The Texas Facilities Commission (TFC) mission is to support state government through strategic planning, asset management, design, construction, maintenance, and leasing of state facilities and the reallocation and/or disposal of state and federal surplus.

## **Office of Internal Audit's Mission Statement**

Our mission is to assist the agency in achieving its operational goals by using innovative and disciplined methods to objectively evaluate the effectiveness, efficiency, and integrity of agency operations and governance processes and making recommendations to improve operational performance and governance processes.

**To obtain a hard copy of this TFC Audit Report, please e-mail  
Amanda.jenami@tfc.state.tx.us or call 512-463-1438.**