

HUMAN RESOURCES
CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

Report Number 04-29
January 19, 2005

Members, Committee on Audit

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ABBREVIATIONS

CO	Office of the Chancellor
CSU	California State University
HEERA	Higher Education Employee Relations Act
HIPAA	Health Insurance Portability and Accountability Act
HRS	Human Resource Services
MPP	Management Personnel Plan

EXECUTIVE SUMMARY

As a result of a systemwide risk assessment conducted by the Office of the University Auditor during the last quarter of 2002, the Board of Trustees, at its January 2004 meeting, directed that *Human Resources* be reviewed.

We visited the California State University, Office of the Chancellor (CO) from August 23, 2004, through September 17, 2004, and audited the procedures in effect at that time.

In our opinion, the administration and management of the human resources function provided effective controls, such as documented policies, procedures, and guidelines in the recruitment area; a high awareness of the need to maintain the confidentiality of employee information; and comprehensive websites for sharing important employment information. However, the controls that ensure compliance with certain CO and systemwide operating standards needed to be strengthened.

The following summary provides management with an overview of conditions requiring attention. Areas of review not mentioned in this section were found to be satisfactory. Numbers in brackets [] refer to page numbers in the report.

RECRUITMENT, SELECTION, HIRING, AND EVALUATION [5]

Recruitment, hiring, and evaluation practices were not always in compliance with CO policies and procedures and state regulations. Specifically, the CO filled certain positions without recruitment or verification of the applicants' educational qualifications, and, subsequent to employment, such employees had not received required performance evaluations.

INFORMATION SECURITY [6]

The protection of confidential employee information needed improvement. Specifically, employees of the human resource services (HRS) department worked in open cubicles that were adjacent to and in an area with non-department personnel, including consultants, and the main and exit doors to the area that housed the HRS offices were never locked.

INTRODUCTION

BACKGROUND

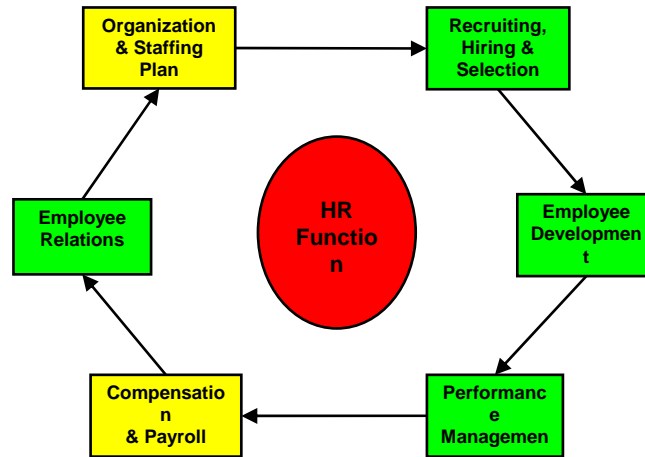
Human resources management is organizing, guiding, providing resources for, and interacting with employees. To be effective, the human resources function must be aligned with the organization's goals and objectives and administered in a manner that meets extensive legal and regulatory challenges. At the California State University (CSU), the human resources management function is a shared responsibility between the chancellor's office and the campuses to:

- ▶ Plan for the movement of people into, within, and out of employment with the university.
- ▶ Recruit and select personnel with the appropriate skills, knowledge, and abilities.
- ▶ Train and develop staff members to enhance their capabilities.
- ▶ Provide compensation and benefits that attract, motivate, and retain talented employees.
- ▶ Appraise and report employee performance to identify areas that need improvement and provide positive reinforcement for effective performance.
- ▶ Maintain effective employee relations.
- ▶ Provide for employees' safety by minimizing the risk of illness and injury in the workplace.

As a state agency and a recipient of federal funds, the CSU must perform its human resources management responsibilities within legal constraints imposed by the government. In addition to Board of Trustee policies, the university must comply with major federal and state laws that govern human resources management practices and address equality and fairness in the workplace. Such laws include, but are not limited to, Title VII of the Civil Rights Act of 1964, the Equal Pay Act of 1963, the Age Discrimination in Employment Act, the Vietnam Veteran's Readjustment Act of 1974, and the Americans with Disabilities Act of 1990. As a result of the Higher Education Employee Relations Act (HEERA) of 1979, human resources management activities must also be performed within the parameters of collective bargaining and negotiated union contracts.

Human resources management activities rely on effective information management systems for operational efficiencies and controls; however, one of the major advantages of such systems is also a potential liability. As part of their job responsibilities, employees have access to information that can be useful for decision-making; however, most of that information needs to remain private and is presently regulated by such laws as the Information Practices Act of 1977, the Health Insurance Portability and Accountability Act (HIPAA) of 1996, and the Board of Trustees' own policies for personal information management.

In fiscal year 2002/03, the CSU expended approximately \$2.8 billion (or 64 percent of total operating expenses) on salary and benefits for faculty and staff. Because of this investment, the university remains accountable for implementing a dynamic human resources function that attracts and maintains qualified personnel. For the scope of this audit, we will review components of the following human resources management activities:



PURPOSE

Our overall audit objective was to ascertain the effectiveness of existing policies and procedures related to the administration of the human resources function and to determine the adequacy of controls over the related processes to ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus procedures.

Within the overall audit, specific goals included determining whether:

- ▶ Administration and management of the human resources function provide effective internal controls, clear lines of organizational authority, delegations of authority, and documented policies and procedures.
- ▶ Processes and procedures ensure timely and effective communication of CSU and campus policies and federal and state laws and regulations in the employment area.
- ▶ Employees are sufficiently apprised of acceptable business practices and expected standards of ethical and moral behavior and report conflict of interest situations.
- ▶ Recruitment, selection, hiring, and appointment activities are properly authorized, ensure employment eligibility, and comply with state and federal laws and regulations and collective bargaining agreements.
- ▶ Professional licenses, certificates, and/or registration requirements for applicable employees are properly maintained.

INTRODUCTION

- ▶ Employee compensation and benefit requests are properly authorized, timely processed, and comply with applicable collective bargaining agreements as well as campus and CSU policy.
- ▶ Managers, supervisors, and other persons involved in recruiting and interviewing staff and processing employee compensation, benefits, and program requests are appropriately trained and knowledgeable of assigned human resources responsibilities, including the protection of confidential employee information.
- ▶ Confidential hard-copy and system information, such as information pertaining to recruitment, selection, and hiring activities, and compensation and benefit requests are reasonably secure.

SCOPE AND METHODOLOGY

The proposed scope of the audit, as presented in Attachment B, Audit Item 2 of the January 27-28, 2004, meeting of the Committee on Audit, stated that the review would include compliance with employment laws and regulations, position classification/compensation, advertising for prospective employees, employee training, and programs for employee benefit administration. The Office of the University Auditor has not previously reviewed *Human Resources*.

Our study and evaluation were conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that operational and administrative controls are in place and operative. This review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor and campus policies, letters, and directives. The audit review focused on procedures in effect during fiscal year 2003/04. Throughout this report, we will refer to human resources as the primary audit subject. At the Office of the Chancellor, the senior director of human resource services and other responsible individuals administer the human resources function.

We focused primarily upon internal, administrative, compliance, and operational controls over the management of the human resources function. Specifically, we reviewed and tested:

- ▶ Administrative policies, procedures, and processes.
- ▶ Communication of CSU policies and other directives.
- ▶ Conflict of interest forms and training programs.
- ▶ Recruitment, selection, and hiring activities for faculty and staff, including training processes.
- ▶ Administration of compensation, benefits, and employee programs.
- ▶ Maintenance and protection of confidential human resources information

OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT RESPONSES

RECRUITMENT, SELECTION, HIRING, AND EVALUATION

Recruitment, hiring, and performance evaluation practices were not always in compliance with the Office of the Chancellor's (CO's) policies and procedures and state regulations.

As a result of our review of recruitment and/or official personnel files for eight represented, three confidential, and four temporary (one faculty and three Management Personnel Plan employees), we found that the CO could not provide evidence that the three Management Personnel Plan (MPP) positions were filled by recruitment or that educational qualifications required for the MPP positions were verified. In addition, the CO could not provide evidence that performance evaluations were performed for the MPP employees.

The CO recruitment procedures state that recruitment must be conducted to fill any vacant position and that the only exceptions are student assistants, special consultants, and emergency temporary positions of 180 days or less.

Title 5 §42722 states that MPP employees shall be evaluated after six months and one year of service, and subsequently at one-year intervals.

The vice chancellor of human resources stated that the manner in which these individuals were hired was unusual, due to the uniqueness of the job requirements.

Failure to recruit and evaluate staff in accordance with CO policies and procedures and state regulations could result in potential complaints of conflicts of interest and/or discriminatory practices.

Recommendation 1

We recommend that the CO:

- a. Ensure that all applicable positions are filled by recruitment.
- b. Verify candidates' educational qualifications.
- c. Prepare performance evaluations for applicable employees.

Management Response

Agreed.

Executives at the chancellor's office were reminded in a memorandum dated February 1, 2005, that a recruitment must be conducted when filling any vacant position (except student assistants, special consultants, and emergency temporary positions of less than 180 days duration), that the educational qualifications of selected candidates must be verified when the position description specifies

educational requirements, and that performance evaluations must be prepared for all applicable employees.

INFORMATION SECURITY

The protection of confidential employee information needed improvement.

We noted that:

- ▶ The human resource services (HRS) department was not entirely secured to prevent accidental or unintentional disclosure of confidential employee information. Specifically, department employees worked in open cubicles that were adjacent to and in an area with non-department personnel, including consultants.
- ▶ The main and exit doors to the area in which the HRS offices were located were never locked.

California State University (CSU) directive Human Resources 2004-08, *Requirements for Protecting Confidential Employee Data*, dated March 1, 2004, states that each campus and the chancellor's office must take necessary steps to protect confidential employee personal information, which includes, but is not limited to, social security number, ethnicity, gender, home address, physical description, home telephone number, medical history, and performance evaluations. The policy also states that to protect confidential employee data, each campus and the chancellor's office must ensure that all employees with access to confidential employee information have a legitimate CSU need to have such access, and that these employees must understand the responsibility they have under the Information Practices Act and Title 5 to protect sensitive employee information.

The senior director of human resource services stated that space limitations at the CO prevented the HRS department from being entirely secured, and that the main and exit doors to the area housing the HRS offices were unlocked to provide access to non-department areas after-hours.

Inadequate control over confidential employee information increases the risk of loss, theft, or unauthorized access to, and disclosure of, confidential employee information, poor employee morale, and potential lawsuits against the CSU.

Recommendation 2

We recommend that the CO evaluate the current security of, and access to, the HRS area and take appropriate action to ensure the ongoing protection of confidential employee information.

Management Response

Agreed.

Due to the open floor plan of the chancellor's office, we are not able to totally control access to the human resources area. We recognize the risk and are willing to accept it. We will, on an ongoing basis, monitor the situation and do what we can to increase security and confidentiality in the area.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Charles B. Reed	Chancellor
Amelia Chung	Payroll Technician
Ana Flores	Human Resources Programs/Recruitment Assistant
Bruce Gibson	Senior Director, Human Resource Services
Kristy Hawman	Senior Manager, Human Resource Services
Alicia Hokinson	Special Consultant, Human Resources Information Systems/PeopleSoft
Sue Kirby	Lead Payroll Technician
Cheryl Kwiatowski	Senior Director, Chancellor's Office Information Technology Services
Jackie McClain	Vice Chancellor, Human Resources
Marilyn Mischler	Associate Director, Human Resource Services
Pat Ritchie	Payroll and Data Manager
Richard West	Executive Vice Chancellor, Chief Financial Officer
Erica Zuniga	Human Resources Programs Specialist



THE CALIFORNIA STATE UNIVERSITY


BAKERSFIELD • CHANNEL ISLANDS • CHICO • DOMINGUEZ HILLS • FRESNO • FULLERTON • HAYWARD • HUMBOLDT
LONG BEACH • LOS ANGELES • MARITIME ACADEMY • MONTEREY BAY • NORTHRIDGE • POMONA • SACRAMENTO
SAN BERNARDINO • SAN DIEGO • SAN FRANCISCO • SAN JOSE • SAN LUIS OBISPO • SAN MARCOS • SONOMA • STANISLAUS

JACKIE R. McCLAIN
VICE CHANCELLOR
HUMAN RESOURCES

MEMORANDUM

Date: February 8, 2005

To: Larry Mandel
University Auditor

From: Jackie R. McClain 
Vice Chancellor
Human Resources

Re: Management Response to Recommendations of Audit Report No. 04-29
Human Resources, Office of the Chancellor

In conjunction with the above, attached are the Human Resources response to Recommendations 1 and 2, on hard copy and diskette. This completes Audit Report No. 04-29.

Please do not hesitate to contact my office should you have questions.

JMcC/lpm

Cc: Mr. Richard West
Mr. Dennis Hordyk
Mr. Paul Stromberg
Mr. Bruce Gibson

HUMAN RESOURCES

**CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR**

Report Number 04-29

RECRUITMENT, SELECTION, HIRING, AND EVALUATION

Recommendation 1

We recommend that the CO:

- a. Ensure that all applicable positions are filled by recruitment.
- b. Verify candidates' educational qualifications.
- c. Prepare performance evaluations for applicable employees.

Management Response:

Agreed.

Executives at the Chancellor's Office were reminded in a memorandum dated February 1, 2005 that a recruitment must be conducted when filling any vacant position (except student assistants, special consultants and emergency temporary positions of less than 180 days duration), that the educational qualifications of selected candidates must be verified when the position description specifies educational requirements, and that performance evaluations must be prepared for all applicable employees.

INFORMATION SECURITY

Recommendation 2

We recommend that the CO evaluate the current security of, and access to, the HRS area and take appropriate action to ensure the ongoing protection of confidential employee information.

Management Response

Agreed.

Due to the open floor plan of the Chancellor's Office, we are not able to totally control access to the HR area. We recognize the risk and are willing to accept it. We will, on an ongoing basis, monitor the situation and do what we can to increase security and confidentiality in the area.



THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

February 16, 2005

CHANNEL ISLANDS

CHICO

MEMORANDUM

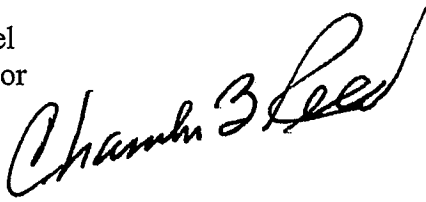
DOMINGUEZ HILLS

FRESNO

FULLERTON

TO: Mr. Larry Mandel
University Auditor

HAYWARD

FROM: Charles B. Reed
Chancellor


HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report Number 04-29 on *Human Resources*,
California State University, Office of the Chancellor

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of February 16, 2005, I accept the response as submitted with the draft final report on *Human Resources*, California State University, Office of the Chancellor.

NORTHRIDGE

POMONA

SACRAMENTO

CBR/aml

SAN BERNARDINO

Enclosure

SAN DIEGO

cc: Ms. Jackie R. McClain, Vice Chancellor, Human Resources
Mr. Richard P. West, Executive Vice Chancellor and Chief Financial Officer

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS