



April 24, 2019

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Recruitment and Employment Audit

Overview

The Internal Audit Department has completed an audit of recruitment and employment operations at the Orange County Transportation Authority. Based on the audit, controls to ensure compliance with recruitment policies are generally adequate and functioning; however, a few instances of non-compliance with requirements for review of applications and written job offers were identified. The Internal Audit Department also identified situations that should be addressed in policies and procedures, including the employment of coach operator applicants with pending license suspensions, pending criminal cases, and unfavorable or missing references from past employers. In addition, the Internal Audit Department identified policy violations related to the payment of relocation costs and subsequent waiver of the repayment requirement. Finally, the Internal Audit Department identified concerns related to removal of the requirement for bus service workers to hold a commercial driver license.

Recommendation

Direct staff to implement three recommendations provided in Recruitment and Employment, Internal Audit Report No. 19-503.

Background

Requisitions for budgeted positions must be approved by the division Executive Director and the Budget Review Committee. The talent specialist in Human Resources (HR) screens the first 100 applicants in the order of date received. For external applicants applying for coach operator positions and certain maintenance positions, the screening process includes a review of their driving

records. Prior to their start date, these applicants must have obtained a Class B commercial driver license (CDL) or instruction permit. Before extending a verbal job offer, the talent specialist obtains all required approvals for the hiring decision. The formal job offer must be electronically signed by the applicant. The talent specialist obtains and reviews the applicant background checks, coordinates post-offer drug and alcohol screenings and medical exams, and makes required background inquiries of driver performance and testing, as required by the Department of Transportation (DOT).

Relocation assistance may be paid to new hires who live 75 miles or more from headquarters and are filling a position that is either grade level V and above or in high demand. The maximum reimbursement is \$35,000, with a requirement that the Chief Executive Officer inform the Finance and Administration Committee if the relocation amount exceeds \$20,000.

Discussion

HR maintains a Recruitment Selection Policy, but has not developed written procedures to address all recruitment steps, including procedures specific to coach operator and maintenance employee recruitments, such as inquiries of DOT-regulated employers and creation of eligibility lists. Procedures also do not address applicants with pending license suspensions, pending criminal cases, and unfavorable or missing references from past employers. The Internal Audit Department (Internal Audit) recommended that management develop and implement procedures and reconsider whether to hire applicants with pending license suspensions. Management agreed and indicated that they are in the process of revamping procedures.

Internal Audit identified payment of \$35,000 in relocation assistance to a new employee whose signed job offer letter did not include relocation assistance. The same employee resigned after eight months and was not asked to repay half of the amount, as outlined in policy. Internal Audit recommended management enhance procedures to ensure offers of relocation are properly approved and adequately documented and implement monitoring controls to ensure compliance. Management agreed and indicated that procedures will be revamped, and monitoring controls implemented.

Finally, the service worker job description was revised to remove the requirement for workers to hold a CDL. Service workers perform daily vehicle servicing, which includes vehicle movement, cleaning and servicing, fueling, refilling consumables, and minor inspections. Management asserted that, while service workers drive buses around the bus bases, they are rarely asked to drive a bus outside OCTA property, such as to move a bus from one base to another.

Internal Audit recommended that management reconsider removal of the CDL requirement. Alternatively, management should issue a formal, written directive to ensure that service workers are never asked to operate buses outside of OCTA property. Management responded that the commercial driver license and renewal policy will be updated to state that individuals without a CDL shall not operate a vehicle outside OCTA property.

Summary

Internal Audit has completed an audit of recruitment and employment and has offered three recommendations for improvement.

Attachment

- A. Recruitment and Employment, Internal Audit Report No. 19-503

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Recruitment and Employment

Internal Audit Report No. 19-503

April 9, 2019



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Conclusion

The Internal Audit Department (Internal Audit) has completed an audit of recruitment and employment operations at the Orange County Transportation Authority (OCTA). Based on the audit, controls to ensure compliance with policies for recruitment and employment are generally adequate and functioning; however, a few instances of non-compliance with requirements for review of applications and written job offers were identified. In addition, Internal Audit identified policy violations related to the payment of relocation costs and subsequent waiver of the repayment requirement. Internal Audit also identified situations that should be addressed in policies and procedures, including the employment of coach operator applicants with pending license suspensions, pending criminal cases, and unfavorable or missing references from past employers. Finally, Internal Audit identified concerns related to removal of the requirement for bus service workers to hold a commercial driver license.

Regarding the recruitment cycle, average days to recruit administrative employees declined from around 100 days in the first three quarters of 2018 to 86 days in the last quarter.

Background

Recruitment Process

Requisitions for budgeted positions must be approved by the division Executive Director (ED) and the Budget Review Committee, comprised of the ED of Finance and Administration, ED of Human Resources and Organizational Development (HROD), and the Deputy Chief Executive Officer. Requisitions for unbudgeted positions require additional approval from the Chief Executive Officer (CEO) and the Board of Directors (Board).

All job openings must be posted internally for at least five business days and include an application deadline. The talent specialist in Human Resources (HR) screens the first 100 applicants in the order of date received. Internal applicants are excluded from consideration if they: do not meet the minimum qualifications and have not been in their current position for at least 6 months; have an overall performance rating below "Fully Meets Expectations"; or have been issued a Final Written Warning or been placed on a Performance Improvement Plan within the last year.

For external applicants applying for coach operator positions and certain maintenance positions, the screening process includes a review of their driving records. Prior to their start date, these applicants must have obtained a Class B commercial driver license or instruction permit.

Before extending a verbal job offer, the talent specialist obtains all required approvals for the hiring decision: hiring manager and Manager of HR for all decisions; hiring manager's

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ED for external salary offers at or above midpoint; and ED of HROD and CEO for external salary offers at or above midpoint for positions at salary grade V. The formal job offer must be electronically signed by the applicant.

The talent specialist obtains and reviews the applicant background checks, coordinates post-offer drug and alcohol screenings and medical exams, and makes required background inquiries of driver performance and testing, as required by the Department of Transportation (DOT).

Relocation Assistance

Relocation assistance may be paid to new hires who live 75 miles or more from headquarters and are filling a position that is either grade level V and above or in high demand. The ED of HROD and the CEO are responsible for determining whether a recruitment is eligible for relocation assistance. The maximum reimbursement is \$35,000, with a requirement that the CEO inform the Finance and Administration Committee if the relocation amount exceeds \$20,000. Only reasonable relocation expenses are to be reimbursed, and requests for reimbursements must be submitted within 120 days of commencing employment.

Employee Referrals

A monetary incentive may be granted to employees for referral of external applicants. Monetary incentives can range from \$500 to \$2,000, depending on hiring difficulty. The policy outlines parameters on who, and under what conditions, an incentive award will be paid.

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Objectives, Scope, and Methodology

The objectives were to assess and evaluate procedures, controls, and effectiveness of recruitment and employment operations.

According to Generally Accepted Government Auditing Standards (GAGAS), internal control, in the broadest sense, encompasses the plans, policies, procedures, methods, and processes adopted by management to meet its mission, goals, and objectives. Internal controls significant within the context of the audit objectives were evaluated as part of this audit.

The scope is limited to recruitment and employment operations. The scope excluded terminations, compensation, and contract staffing.

The methodology included testing a judgmental sample of 40 employees hired from July 2016 through October 2018, for compliance with the Recruitment Selection Policy and evidence of related controls. The selected new hires consisted of 15 administrative or Transportation Communications Union (TCU) employee hires, three maintenance employee hires, and 22 coach operator hires. The selections were made with a focus of obtaining coverage through the test period and across all divisions. Five additional administrative recruitments were judgmentally selected after a few exceptions were noted. Since the sample was non-statistical, any conclusions are limited to the sample items tested. Internal Audit also reviewed all employee referral monetary incentives paid through November 2018 for compliance with the Employee Referral Program Policy, evidence of related controls, and overall volume. Finally, Internal Audit calculated the average days to recruit administrative and TCU employees, coach operators, and maintenance employees for 2018.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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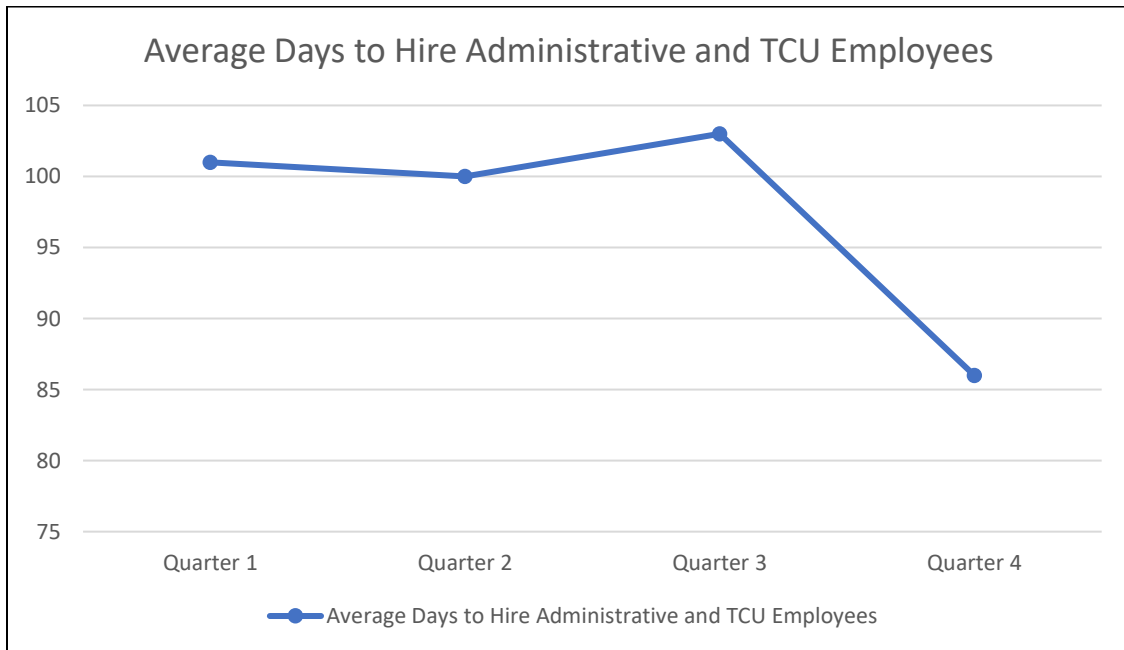
Audit Comments, Recommendations, and Management Responses

Noteworthy Accomplishment

Based on recruitment data for 2018, Internal Audit noted that the average days to recruit administrative and TCU employees had decreased from around 100 days during the first three quarters to 86 days in the fourth quarter. This decrease coincides with implementation of an online requisition form.

Internal Audit calculated the average cycle of recruitment for maintenance, coach operator, and administrative and TCU employees hired in 2018. For maintenance, administrative, and TCU employees, Internal Audit considered the recruitment cycle to start on the date the requisition was signed by the hiring manager. Since coach operator recruiting is a continuous process throughout the year using one requisition, Internal Audit considered the recruitment cycle to start on the date the application was signed. The average days for recruitment of maintenance employees is 178 days for 2018. For coach operators, the average days from the time the application is signed to the hire date is 71 days for 2018.

As noted above and charted below, the average days for recruitment of administrative and TCU employees decreased from around 100 days in the first three quarters to 86 days in the last quarter of 2018.



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Develop and Implement Comprehensive Procedures

HR maintains a Recruitment Selection Policy but has not developed written procedures to address all recruitment steps, including procedures specific to coach operator and maintenance employee recruitments, such as inquiries of DOT-regulated employers and creation of eligibility lists. Procedures also do not address the screening, hiring, and monitoring of applicants with pending license suspensions, pending criminal cases, and unfavorable or missing references from past employers.

One coach operator applicant was hired, and subsequently fired, due to a license suspension. Internal Audit reviewed recruitment and employment files and noted the following concerns:

1. HR hired the applicant with knowledge of a pending license suspension without notifying Transit Division (Transit) management of this issue.
2. Transit management did not identify the pending license suspension until after the coach operator was driving in-service.
3. Transit management later terminated the coach operator for not being forthcoming about his license being suspended; however, Internal Audit discovered that the coach operator's license was never actually suspended, as both pending suspensions were cleared before the effective date.

Concerns related to coach operator applicant background checks were also identified, as follows:

1. The past employer of the same coach operator (described above) responded that he was not eligible for rehire and indicated that there had been disciplinary actions and written or verbal warnings issued.
2. Two past employers of another coach operator provided unfavorable feedback. One indicated that the applicant was not eligible for rehire and another cited reason for leaving as probationary termination. The applicant had indicated salary as the reason for leaving.
3. DOT regulations require certain inquiries be made of past DOT-regulated employers related to safety performance history and alcohol and controlled substance testing. These inquiries were not made in the case of one such past employer.
4. Finally, there was one coach operator new hire whose background check identified a felony case pending for grand theft and non-sufficient fund check. While this is not a disqualifying event, there is no procedure in place to monitor, or consider, the outcome of pending criminal cases.

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Recommendation 1:

Internal Audit recommends management develop and implement detailed procedures that address all recruitment steps, including procedures specific to coach operator and maintenance employee recruitments, such as inquiries of DOT-regulated employers and creation of eligibility lists. Procedures should also address the screening, hiring, and monitoring of applicants with pending license suspensions, pending criminal cases, and unfavorable or missing references from past employers. Finally, management should reconsider whether to hire applicants with pending license suspensions or, at a minimum, ensure monitoring controls are in place.

Management Response (HROD):

The Human Resources Department is currently in the process of revamping its processes and procedures to address all recruitment steps, including procedures specific to coach operator and maintenance employee recruitments. Human Resources does not have a practice of hiring applicants with pending license suspensions, however, procedures will be developed to address the screening, hiring, and monitoring of applicants with pending license suspensions, pending criminal cases, and unfavorable or missing references, consistent with California law.

Non-Compliance with Reimbursement of Relocation Expenses Policy and Recruitment Selection Policy

Payment of \$35,000 in relocation assistance and subsequent waiver of the requirement for partial repayment upon termination, violated OCTA's Reimbursement of Relocation Expenses Policy (Policy).

The Policy requires the conditions of relocation expense reimbursements be in writing and agreed upon prior to an employee's start date; however, the written job offer signed by the new employee contained no such reference. An earlier draft of the written job offer included \$20,000 in relocation assistance and referenced the Policy that describes eligible expenses and conditions of repayment should the employee terminate within 12 months; however, this offer was not accepted. It appears that the employee negotiated for additional relocation assistance, up to the maximum \$35,000; however, no relocation assistance was outlined in the final written job offer which was signed by the employee. Despite this, management later agreed to pay \$35,000 in relocation reimbursements, asserting that the recruiter had verbally committed to the payment. When the same employee terminated after eight months, management decided not to request repayment of half of the amount, as dictated by Policy, because written acknowledgment of the relocation reimbursement and Policy repayment provisions was never obtained.

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In addition, during testing of recruitments, Internal Audit identified a few instances of non-compliance with the Recruitment Selection Policy, as follows:

1. There was no evidence that the first 100 applicants were reviewed as required for two recruitments.
2. A written job offer was not prepared for one applicant and a signed job offer was not obtained from another applicant.

Recommendation 2:

Internal Audit recommends management enhance procedures to ensure offers of relocation are properly approved and adequately documented. Management should also implement monitoring controls to ensure compliance with recruitment policy and procedures.

Management Response (HROD):

All Talent Acquisition staff in the Human Resources Department have been provided a copy of the Reimbursement of Relocation Expenses Policy, HROD-HR-420.09REIMB, which outlines the requirements, eligibility, and procedures. Also, a Reimbursement of Relocation Expenses Procedure has been developed and provided to Talent Acquisition staff. In addition, template language has been developed to insert into any candidate offer letter that includes relocation expenses. The offer letter requires the candidate's signature and acknowledges receipt of, and agreement with, the Relocation Expenses Policy, which includes a payback provision.

In addition, Human Resources is currently in the process of revamping its processes and procedures to address all recruitment steps and will determine the best means to implement controls to ensure compliance with recruitment policies and procedures.

Removal of Commercial License Requirement for Service Workers

In August 2018, the service worker job description was revised to remove the requirement for a commercial driver license. Service workers perform daily vehicle servicing, which includes vehicle movement, cleaning and servicing, fueling, refilling consumables, and minor inspections. Transit management said that while service workers must drive buses around the bus bases to perform their duties, they are rarely asked to move a bus from one base to another and management would prefer that service workers not operate the buses on public streets due to their lack of experience. However, since removal of the license requirement, management has not issued official notice to base management that service workers should not operate buses off of base property.

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Recommendation 3:

Since service workers are required to operate buses, even on a limited basis, Internal Audit recommends that management reconsider the removal of the commercial driver license requirement. Alternatively, management should issue a formal directive to base management that service workers should never be asked or allowed to drive buses outside base property.

Management Response (Operations):

The Maintenance Department (Maintenance) will continue to require a valid class “C” driver license and train new service workers on how to safely operate buses within the base as well as offer commercial driver training for service workers who are interested in obtaining a commercial driver license (CDL). In addition, we will continue to monitor and assess the effects of removing the commercial driver license requirement from the job description.

In terms of the recommendation to issue a formal directive, Maintenance will comply by updating department policy MNT-0020, Commercial Driver License and Renewal Policy, to address the licensing of all Maintenance employees including what is required for each position. For positions that do not require a CDL, the policy will state that individuals without CDLs shall not operate a vehicle outside of the base property. The policy changes will be tailgated, and Maintenance employees will sign an acknowledgement receipt of the policy. In addition, the policy will be included in new Maintenance employee orientation. Policy update, tailgating, and distribution will be completed within 30 days.