

**Performance Audit 16-04:
Personnel Background Checks**

December 2016

City Auditor

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OFFICE OF INTERNAL AUDIT

Stan Sewell, City Auditor

December 9, 2016

To: Mayor Andy Berke
City Council Members

Subject: Personnel Background Checks (Report #16-04)

Dear Mayor Berke and City Council Members:

The attached report contains the results of our audit of Personnel Background Checks. Our audit found that overall the City's background check program reduces the risk of bad hires and there is compliance with applicable laws, rules and regulations. However, we also identified areas for improvement. In order to address the noted areas for improvement, we recommended actions to establish written policies and procedures to ensure an adequate background check is performed on all employees, including temporary. We also recommended implementation of a periodic re-screening policy.

We thank the management and staff of the Human Resources Department, Youth & Family Development Department, Police Department and the Office of Multicultural Affairs for their cooperation and assistance during this audit.

Sincerely,

Stan Sewell, CPA, CGFM, CFE
City Auditor

Attachment

cc: Audit Committee Members
Stacy Richardson, Chief of Staff
Maura Sullivan, Chief Operating Officer
Todd Dockery, Director of Human Resources

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AUDIT PURPOSE

This audit was conducted in accordance with the Office of Internal Audit's 2016 Audit Agenda. The objectives of this audit were to determine if the City's personnel background check program:

- prevents a bad hire;
- mitigates the risk of retaining bad employees in sensitive positions;
- ensures temporary employees have a sufficient background check; and,
- complies with applicable laws, rules and regulations.

BACKGROUND

The City of Chattanooga has a duty to create a safe workforce and workplace. In an effort to reduce the risk of harmful consequences of a bad hire, the City conducts pre-employment background screenings to verify the accuracy of an applicant's claims as well as to discover any possible unfavorable issues. Following a conditional offer of employment, background screenings are conducted on full-time, part-time and temporary candidates as required by the *City of Chattanooga Employee Information Guide*.

The background check process must comply with federal laws under the Fair Credit Reporting Act (FCRA) and the Equal Employment Opportunity Commission (EEOC), as well as applicable state and local laws on background checks. The FCRA requires that employers using consumer reports (background checks) for employment purposes must provide employees and applicants with a written disclosure and obtain their written consent before obtaining these reports. The EEOC protects applicants from discrimination.

Statistical Information

During the scope of the audit (August 2015 to July 2016), 430 employees (full-time, part-time and temporary) were hired and added to the City's payroll. The City has approximately 2,700 employees.

FINDINGS AND RECOMMENDATIONS

Establish a Written Screening Policy

We found there was a lack of written policies and procedures for the City's personnel background check process. The oversight, performance and control of pre-employment screening was informal and based primarily on institutional knowledge by experienced staff. Component 1, Control Environment of the *Internal Control and Compliance Manual for Governmental Entities and Other Audited Entities in Tennessee* requires the development of a manual that provides sufficient documentation of internal control to communicate to personnel their responsibilities as well as to monitor and evaluate the controls. There is a risk for inconsistent practices among employees and discontinuity that could increase should the human resource office experience considerable staff turnover.

Recommendation 1:

We recommend the Human Resources Department establish written personnel background check policies and procedures. The written policies and procedures should include, but not be limited to: Who will be checked; what information will be collected; how the information will be used; which departments may substantially perform their own background checks; and, how reports of unfavorable incidents will be addressed?

Auditee Response: We concur with the audit finding and recommendation. In May of this year, we repurposed an existing position to create a Quality Assurance Officer who will, along with other duties, develop and provide oversight for procedures, as well as perform quality reviews.

Job Requirements Determine the Type of Background Check

During the audit, we found instances where the type of background check performed was not consistent with the requirements of the job description. For example, a standard background check was performed rather than the required safety or child sensitive background check. Also, some positions requiring a driver's license did not have a motor vehicle history check.

The City's *Employee Information Guide*¹ indicates, "The specific components of the background check will be based on the requirements for the position". The HR Generalist judgmentally selects the appropriate type of background check based on their

¹ *City of Chattanooga Employee Information Guide* (Effective: September 8, 2015): Section IV. – Employment, E. Post Offer Requirements.

understanding of the job description. By overlooking certain elements of a background check, there is a risk for making a bad hire that could result in harmful consequences.

Recommendation 2:

We recommend the Human Resources Department establish a written list of positions denoting the type of background check required.

***Auditee Response:** We concur with the audit finding and recommendation. In May of this year, we repurposed an existing position to create a Quality Assurance Officer who will, along with other duties, develop and provide oversight for procedures, as well as perform quality reviews.*

Background Checks Using Multiple Sources are Best

While reviewing a sample of 47 employee files, we noted in 6 instances only local court and state sex offender record searches were performed for background checks. In addition, the temporary staffing company used by the City only searches local records while performing their background checks. It is important to recognize the limitations of only using a local court and state sex offender search. There is a risk such a search might not locate records in other jurisdictions, resulting in a bad hire that might have harmful consequences.

As with any background search, using only a national search also has its constraints and should be supplemented with a local search. It is important to ensure all potential disqualifying information is searched. A national search can provide information that points you to local jurisdictions that should be searched as well. Negative results should be confirmed.

According to *Best Practice Standards – The Proper Use of Criminal Records in Hiring*², “be sure that all information is confirmed from the original source...” This allows you to confirm or disprove findings before making a decision. A comprehensive review of an applicant’s background can only be accomplished by using multiple sources.

Recommendation 3:

We recommend the Human Resources Department and the temporary staffing company perform a national search for all background checks,

² *Best Practice Standards – The Proper Use of Criminal Records in Hiring*, page 2, <http://src.bna.com/h0D>.

and supplement it with local and state searches as needed to confirm the information discovered.

***Auditee Response:** We concur with the audit finding and recommendation. In May of this year, we repurposed an existing position to create a Quality Assurance Officer who will, along with other duties, develop and provide oversight for procedures, as well as perform quality reviews.*

Recommendation 4:

We recommend the Human Resources Department ensure future temporary staffing contracts require a comprehensive nationwide search, and that a copy be provided to the Human Resources Department and the hiring department.

***Auditee Response:** We concur with the audit finding and recommendation. In May of this year, we repurposed an existing position to create a Quality Assurance Officer who will, along with other duties, develop and provide oversight for procedures, as well as perform quality reviews.*

Re-screen Current Employees

Overall, we found the City does not have formal guidance for re-checking the background of current employees on a recurring basis to address post-hire risk. However, it is done for certain situations. For example, it is done if an employee is promoted or transferred into a position requiring a higher level background check. Also, the driving records for employees required to have a commercial driver's license (CDL) are re-checked.

According to HireRight, one of the world's largest providers of employee background check services, one of the gaps in background screening programs is, "Re-screening current employees".³ Periodic drug testing of employees is common in today's workplace. However, re-checking criminal history is not that prevalent. Re-checking backgrounds will help you determine if there is subsequent misconduct by your employees.

There are various opinions as to whether the additional cost and effort are justified. However, there is the risk of retaining an employee

³ *Three Security Risks You May Be Overlooking: Closing Common Gaps in Your Background Screening Program*, page 1, <http://www.hireright.com/resources/library>.

whose criminal activity might prove embarrassing or result in a legal action against the City.

Recommendation 5:

We recommend the Human Resources Department consider a more comprehensive follow-up by periodically re-checking the background of employees who are in sensitive positions. The follow-up program should be included in the written policies and procedures and include the time frame for a re-check by job classification (e.g. Safety and Child Sensitive).

***Auditee Response:** We concur with the audit finding and recommendation. In May of this year, we repurposed an existing position to create a Quality Assurance Officer who will, along with other duties, develop and provide oversight for procedures, as well as perform quality reviews.*

Employee's Official Personnel File

While reviewing a sample of 47 employee personnel files, we noted documentation related to 6 employee background checks were maintained at the department level and were not filed in the employee's official personnel file located in the Human Resources Department.

The City's *Employee Information Guide* requires, "Each Department Head or designee may maintain a secure file on each employee...However, all of these documents must also be forwarded to the Human Resources Department in a timely manner for inclusion in the employee's official personnel file." Having a centralized personnel file for each employee provides management a single comprehensive record of an employee's information in one place. A similar finding, related to employee files, was included in our Audit 15-02: Citywide Employee Training Program.

Recommendation 6:

We recommend the Human Resources Department establish procedures to ensure all documentation related to background checks are included in the employee's official personnel file.

***Auditee Response:** We concur with the audit finding and recommendation. In May of this year, we repurposed an existing position to create a Quality Assurance Officer who will, along with other duties, develop and provide oversight for procedures, as well as perform quality reviews.*

APPENDIX A: SCOPE, METHODOLOGY AND STANDARDS

Based on the work performed during the preliminary survey and the assessment of risk, the audit covers Personnel Background Checks from August 2015 to July 2016. When appropriate, the scope was expanded to meet the audit objectives. Source documentation was obtained from the Human Resources Department and other departments when necessary. Original records as well as copies were used as evidence and verified through physical examination.

To evaluate the background check process, we reviewed federal, state and local statutes, interviewed appropriate employees and outside vendors, reviewed and verified appropriate documentation.

To develop our recommendations, we reviewed industry best practice documents and discussed ideas with Human Resource employees.

The sample size and selection were statistically generated using a desired confidence level of 90 percent, expected error rate of 5 percent, and a desired precision of 5 percent. Statistical sampling was used in order to infer the conclusions of test work performed on a sample to the population from which it was drawn and to obtain estimates of sampling error involved. When appropriate, judgmental sampling was used to improve the overall efficiency of the audit.

To achieve the audit's objectives, reliance was placed on the computer-processed data contained in the City's Payroll System. Information in this system had previously been determined to be sufficiently reliable to be used in meeting the audit's objectives.

We conducted this performance audit from August 2016 to November 29, 2016 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.

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