

STATE OFFICE OF ADMINISTRATIVE HEARINGS

Austin, Texas

INTERNAL ANNUAL REPORT

on

Human Resources and Payroll

Fiscal Year 2025



STATE OFFICE OF ADMINISTRATIVE HEARINGS
Austin, Texas

Internal Audit Report
On
Human Resources and Payroll

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Garza/Gonzalez & Associates, LLC

CERTIFIED PUBLIC ACCOUNTANTS

The Honorable Kristofer Monson
Chief Administrative Law Judge
State Office of Administrative Hearings
Austin, Texas

We performed procedures to assess the effectiveness and efficiency of the State Office of Administrative Hearings' (SOAH) internal control structure over the Human Resources and Payroll Area (Area) and its compliance with the State Auditor's Office Texas Human Resources Management Statutes Inventory, the applicable sections of the Texas Comptroller's fiscal policies and procedures, and the Area's established policies and procedures, for the seven months ended March 31, 2025.

Our audit procedures determined that SOAH's internal control structure over the Area was generally adequate, and no material instances of noncompliance were noted.

This report was prepared by Garza/Gonzalez & Associates, LLC, an independent Certified Public Accounting firm, following Generally Accepted Government Auditing Standards, International Standards for the Professional Practice of Internal Auditing, and the Institute of Internal Auditors' Code of Ethics contained in the Professional Practices Framework.

*Garza/Gonzalez
& Associates, LLC*

May 1, 2025

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INTRODUCTION

The State Office of Administrative Hearings (SOAH) was established in 1991 by the 72nd Legislature to serve as the State's independent forum to conduct adjudicative hearings in the executive branch of state government. The establishment of SOAH separates the adjudicative function from the investigative, prosecutorial, and policymaking functions performed by state agencies and also by local governmental entities (collectively "Agencies" in this report). SOAH's enabling statute is the Texas Government Code Chapter 2003, and its procedural rules are found in Title 1, Part 7 of the Texas Administrative Code.

SOAH is headed by a Chief Administrative Law Judge (ALJ) who is appointed by the Texas governor for a renewable two-year term. The Chief ALJ serves as SOAH's executive director and is responsible for agency operations and policymaking, since SOAH does not have a governing board. To be eligible for appointment as the chief ALJ, the individual must be licensed to practice law in Texas, and have practiced administrative law and/or conducted administrative hearings under the Texas Administrative Procedure Act for at least five years combined. The chief ALJ hires the ALJs to conduct hearings. An ALJ must be licensed to practice law in Texas, and is only responsible to the chief ALJ, deputy chief ALJ, or the senior or master ALJs, as designated by the chief ALJ. SOAH's ALJs are not responsible to or subject to the supervision, direction, or indirect influence of any individuals from the referring agency.

SOAH's key activities include the following:

- **Administrative License Revocation (ALR) Program** provides contested hearings before SOAH for administrative suspension, denial, or disqualification of a driver's license by the Texas Department of Public Safety (DPS). SOAH oversees these hearings and issues final decisions concerning individuals accused of allegedly driving while intoxicated. ALRs are the most common type of contested cases heard by SOAH.
- **Administrative (General) Hearings** are conducted for contested cases under the Government Code Chapter 2001, the Administrative Procedure Act, for a state agency that does not employ an administrative judge; when SOAH is required to conduct the administrative hearing by other law; and, for a fee and under a contract, matters voluntarily referred by a governmental entity. SOAH issues an order, a proposal for decision, or final decision on these cases in accordance with applicable state rules.
- **Alternative Dispute Resolution (ADR) Procedures**, such as mediations, assist parties involved in contested cases to come to an agreement to avoid more costly and lengthy administrative hearings, where appropriate.

General Hearings are held virtually and in-person at SOAH's main office in Austin, and 7 field offices located in Corpus Christi, Dallas, El Paso, Fort Worth, Houston, Lubbock, and San Antonio, and one satellite office in Waco. ALR hearings are also held virtually and in-person at 31 additional remote hearing locations which are typically local government offices.

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2025 Internal Audit Plan

Following are the internal audits functions performed, as identified in SOAH's 2025 Internal Audit Plan, dated February 5, 2025 and approved by the Chief ALJ on February 5, 2025:

- Risk Assessment & Preparation of the 2025 Internal Audit Plan
- Human Resources and Payroll Audit
- Limited-Scope Audit of Performance Measures – Fiscal Year 2024 Key Outcome Measures
- Follow-up of Prior Year Internal Audits
- Preparation of the 2025 Internal Audit Annual Report
- Other Tasks

This report (Report No. 1) contains the results of Human Resources and Payroll Audit. Reports on the remaining internal audit areas and other functions to be performed will be issued upon completion.

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EXECUTIVE SUMMARY

Human Resources and Payroll (Area)

Background

The Human Resources (HR) and Finance departments are responsible for the HR and payroll functions at the State Office of Administrative Hearings (SOAH). The payroll functions are primarily carried out by the Payroll Officer within the Finance Department, supervised by the Chief Financial Officer (CFO). Human Resources (HR) functions are performed by the HR Specialist and Staff Services Officer, who are supervised by the HR Manager.

State employees are paid in accordance with the State of Texas Salary Schedules, and positions of state-classified employees are established in accordance with the State of Texas Position Classification Plan, which provides job classifications, salary groups, and salary schedules. State requirements specific to the Area are found in the State Auditor's Office (SAO) Texas Human Resources Management Statutes Inventory and the Texas Comptroller of Public Accounts' (CPA) Texas Payroll/Personnel Resource. Additionally, SOAH has developed policies and procedures related to the Area.

Some of the software applications used by the Area to perform its various functions, include the following:

- Centralized Accounting and Payroll/Personnel System (CAPPS) which is interfaced to the Statewide Payroll Reporting System (SPRS)
- Uniform Statewide Accounting System (USAS)
- SharePoint – Stores electronic files

Hiring Process

Job Posting

When an existing position needs to be filled or a new position is created, the hiring manager from the respective department collaborates with the Finance and HR departments to create a job description and ensure funding is available. The job description is then approved in CAPPS by HR, the hiring manager, Budget, and the Chief Administrative Law Judge (CALJ). Once approved, HR sources the job through the CAPPS Recruit module which posts the job to the CAPPS job posting site and Texas Workforce Commission's WorkInTexas website.

Screening and Selection

All applicants are required to apply through CAPPS. HR is responsible for screening all applications received during the posting period to identify those who meet the minimum qualifications, using a scoring matrix developed by HR. The hiring manager then evaluates the applications and selects the top applicants for interviews. Prior to the interviews, HR and the hiring manager jointly develop interview questions. After the interviews, the hiring manager compiles scores based on interview performance and other job-related factors, ranks the applicants, and prepares a Justification for Hire memo recommending the top-ranked applicant to the CALJ. Concurrently, HR performs due diligence and other pre-employment procedures such as criminal history, credit checks, and reference checks. Upon CALJ approval and receipt of satisfactory background check results, HR contacts the selected applicant to extend an offer. If accepted, HR creates a Personnel Action Form (PAF).

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Personnel Action Form (PAF)

SOAH mandates that all personnel actions, such as hiring, promotion, merit increase, and termination, be consistently documented using a Personnel Action Form (PAF). All PAFs, other than PAFs for separation, are required to be approved by HR, the employee's manager, Budget, the CFO, and the CALJ. PAFs for separation only require HR approval. Once proper approval is obtained, a copy of the PAF is sent to payroll for payroll processing.

Onboarding

Newly hired employees attend a New Employee Orientation (NEO) on their first day of employment. They are granted access to SOAH's Court Central internal website to electronically complete all required employment-related documentation and enroll in mandatory HR training. HR verifies each new employee's employment eligibility and prior state service history. New hires are also given self-service access to CAPPs, which allows them to complete certain documents such as IRS W-4 and direct deposit forms directly in the system. During the period from September 1, 2024, to March 31, 2025, SOAH hired 6 new employees.

Performance Evaluation

SOAH employees undergo annual performance evaluations to assess how well they are meeting expectations and requirements of their specific positions. In March 2025, SOAH implemented the use of E-Performance, a CAPPs performance management module, to facilitate the preparation and execution to these evaluations. The evaluation is conducted by the appraising supervisor and reviewed and approved by appraiser's supervisor. E-Performance has built-in workflows that automatically route evaluations to the appropriate supervisors for approval. Once all approvals are obtained, the appraising supervisor will meet with the employee to discuss the evaluation, which is subsequently signed by the employee.

Timekeeping and Payroll Processing

Timekeeping Process

Employee time is maintained in CAPPs. All SOAH employees are paid on an exception basis, meaning they receive the same monthly pay unless there is a change; such as, leave taken or an adjustment to their existing pay rate. Employees are only required to report exceptions in CAPPs, which is then electronically approved by their respective supervisors.

Payroll Processing

Payroll is processed in accordance with CPA guidelines and pay schedules, and includes two payment types: monthly (on-cycle) and supplemental (off-cycle). On-cycle payments generally represent regular salary and other recurring payments such as Benefits Replacement Pay (BRP), and Longevity Pay. Off-cycle payments generally represent lump-sum payments of unused vacation to separated employees and must be supported by a properly approved PAF. To initiate monthly payroll processing, the Payroll Officer coordinates with HR to ensure that all time and changes in CAPPs are complete. Subsequently, the Payroll Officer generates multiple reports from CAPPs to identify and resolve any errors. The Payroll Officer compares each employee's pay, categorized by pay type (base pay, longevity pay, etc.), in the trial payroll register to those in the prior month to ensure that all changes are supported by a PAF. A payroll reconciliation spreadsheet is prepared by the Payroll Officer and reviewed by the CFO.

After verifying sufficient funding, the Payroll Officer transmits the payroll file to the Standardized Payroll/Personnel Reporting System (SPRS) and notifies an approver to approve the payroll. The Payroll Officer documents the completion of these procedures in the On-cycle and Off-cycle Checklists developed by the CPA.

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Employee Separation

Employees are encouraged to give two weeks' notice when separating from the agency. The notice is provided to HR to prepare a PAF for termination. On the employee's last day of employment, HR conducts an exit interview with the employee and completes an Employee Separation Checklist to document that all SOAH property such as, the employee's badge, laptop, and phone, is collected, and that all information has been provided to them. A Records & Information Exit Checklist is completed by the employee and the employee's supervisor to ensure all records are properly returned, stored, or disposed of. The employees are provided with a link to the SAO exit survey for "voluntary" completion. If an employee is due any wages, a lump sum payment is paid to them within 30 days of their last day of employment.

As of March 31, 2025, a total of 5 employees separated from SOAH.

External Reporting

The Area is responsible for preparing and submitting various reports to external parties, with the majority being sent to the CPA and the State Auditor's Office (SAO), and generated using data from CAPPs. In certain instances, the CPA directly extracts data from CAPPs, which is reviewed and certified by the Area. The Area's reporting requirements are found in the SAO's Human Resources Statute Inventory, and the CPA's FMX Texas Payroll/Personnel Resources website.

Emergency Leave Reporting

In accordance with Texas Government Code 661.902, SOAH employees are entitled to an emergency leave without pay deduction for instances; such as, a death in the family, or other acceptable reasons, as determined and authorized by the CALJ. SOAH is required to report to the Comptroller, no later than October 1st of each year, the name and position of each employee who was granted more than 32 hours of emergency leave during the previous year, the reason, and the total number of hours granted. SOAH reported that 6 employees were granted more than 32 hours of emergency leave (excluding agency holidays) during the fiscal year ended August 31, 2024.

Full-Time Equivalent (FTE) Reporting

In accordance with Texas Government Code 2052.103, SOAH is required to report to the SAO, on a quarterly basis, the number of FTE state employees employed with the agency paid with and without funds in the state treasury, and the total number of managers, supervisors, and staff. As of February 28, 2025, SOAH reported 109.1 FTE positions to the SAO in its second-quarter FTE report.

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AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of this audit was to assess the effectiveness and efficiency of internal controls, policies, procedures, and processes within the Human Resources and Payroll Area (Area). The audit also assessed compliance with applicable state requirements.

Scope

The scope of this audit included selected functions performed by the Area during the 7-month period from September 1, 2024 to March 31, 2025 (audit period).

Methodology

The audit methodology included reviewing applicable laws and regulations, internal policies and procedures, and other relevant internal and external documentation. Interviews were conducted with appropriate SOAH personnel to gain an understanding of current practices and control activities.

We performed various procedures to achieve the objective of our audit; to include, the following:

1. Reviewed and obtained an understanding of relevant sections of the Texas Government Code and state requirements as established in the SAO's Texas Human Resources Management Statutes Inventory, and CPA's Texas Payroll/Personnel Resource applicable to the Area.
2. Reviewed SOAH's written policies and procedures, and relevant documents such as checklists and templates. Conducted interviews to obtain an understanding of and evaluate the Area's internal controls, processes, and current practices in place.
3. Selected a sample of 15 out of the 114 active employees as of March 31, 2025 and performed the following procedures for certain pay periods:
 - a. Ensured the employee's base salary was within the range established in the Salary Group as determined by Classification Salary Schedules.
 - b. Recomputed gross salary and agreed to the amount paid.
 - c. Ensured leave time reported within CAPPS was approved.
 - d. Recomputed longevity pay based on the number of service years.
 - e. Ensured the employee's most recent PAF was properly approved and agreed to the employee's base salary.
4. Selected a sample of 4 out of the 6 employees hired during the audit period, and performed the following procedures:
 - a. Ensured the following new employee forms and documents were properly completed and retained:
 - i. Approved Job Description.
 - ii. Submitted Application.
 - iii. Scoring Matrix.
 - iv. Ranking of Applicants.

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- v. Verification of Prior State Service Forms.
 - vi. Interview Questions.
 - vii. Justification to Hire Memorandum (approved by the hiring supervisor).
 - viii. CAPPS Checklist
 - ix. Employee Onboarding Checklist.
 - x. Offer Letter.
 - xi. Hiring PAF (approved by HR, Budget, Hiring Supervisor, CFO, and CALJ).
 - xii. Employee Authorization to release Criminal and Credit History reports.
 - b. Compared SOAH's job description to the SAO's job description for proper classification.
5. Selected a sample of 2 out of the 5 employees promoted during the audit period, and performed the following procedures:
- a. Ensured a PAF was prepared and approved by HR, the CFO, and the CALJ.
 - b. Ensured a Justification for Personnel Action was completed.
6. Tested a sample of the following reports prepared and submitted by the Area and agreed them to CAPPS and other supporting documentation:
- a. 4th Quarter IRS Form 941.
 - b. Benefits Proportional by Method of Finance Report.
 - c. 2nd Quarter FTE Report.
7. Ensured the Emergency Leave Reporting for fiscal year 2024 was certified by the required due date.
8. Selected a sample of 2 out of the 5 employees that separated from SOAH during the audit period to test for the following attributes:
- a. Accuracy of the final payout by ensuring the final time used and accrued leave balances used agreed to CAPPS balances.
 - b. Termination PAF was prepared and approved by HR.
 - c. The following checklists were properly completed and retained:
 - i. Employee Separation Checklist
 - ii. Records & Information Exit Checklist
 - d. Link to SAO exit survey was provided to the separating employee.

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9. Selected 3 months during the audit period and performed the following procedures related to payroll processing:
 - a. Ensured payroll was properly approved in CAPPS.
 - b. Ensured a payroll reconciliation was completed.
 - c. Verified that changes from the prior month in the On-cycle payroll register were supported by a PAF or other supporting documentation.
 - d. Ensured all payments in the off-cycle payroll register were supported by a PAF.

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Observations/Findings and Recommendations

SUMMARY and RELATED RATING of OBSERVATIONS/FINDINGS and RECOMMENDATIONS

As SOAH's internal auditors, we used our professional judgment in rating the audit findings identified in this report. The rating system was developed by the Texas State Auditor's Office and is based on the degree of risk or effect on the findings in relation to the audit objective(s). The table below presents a summary of the observations/findings and recommendations included in this report and the related rating.

Summary of Observations/Findings & Recommendations and Related Ratings		
Finding No.	Title	Rating
	None	
Observation No.		
	None	
<u>Description of Rating</u>		
A finding is rated <i>Priority</i> if the issues identified present risks or effects that if not addressed could critically affect the audited entity's ability to effectively administer the programs(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.		
A finding is rated <i>High</i> if the issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the programs(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.		
A finding is rated <i>Medium</i> if the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer programs(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.		
A finding is rated <i>Low</i> if the audit identified strengths that support the audited entity's ability to administer the programs(s)/function(s) audited <u>or</u> the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the programs(s)/function(s) audited.		

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OBSERVATIONS/FINDINGS AND RECOMMENDATIONS

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations
1	5/1/25	Human Resources and Payroll	None.