




OFFICE OF INTERNAL AUDIT

Date: July 19, 2016
To: Jaffus Hardrick, Vice President – Human Resources
From: Allen Vann, Chief Audit Executive 
Subject: Review of Nepotism Policies and Procedures
Report No. 16/17-01

In March and April of this year, we collaborated with the University Police and the Division of Human Resources' Department of Employee and Labor Relations on an investigation where it was found that a relative of a student-employee fraudulently continued the student's payroll account beyond her departure from the University. The full amount of the defalcation, \$15,000, was recovered. The employee and another affiliated employee are no longer with the University. Nevertheless, the case highlighted potential weaknesses in our internal control system with regard to related individuals working in the same College or Department and the implications those relationships have on ensuring that we are doing our best to safeguard University resources. Accordingly, we tested the University staff's adherence to our nepotism policies and the effectiveness of current procedures.

University Policy 1710.205, *Nepotism*, states that,

Relationship to another individual employed by the University shall not constitute a bar to hiring, promotion or reappointment, provided, that no employee shall be under the direct or indirect supervision or control of a related individual. The University retains the right to refuse to appoint a person to a position in the same department, division or facility, whereby his/her relationship to another employee can create an adverse impact on supervision, safety, security, morale, or involves a potential conflict of interest. Individuals should not be employed in a department or unit, which will result in a subordinate-supervisor relationship between such individuals and any related individual as defined above through any 'line of authority.' Related individuals, as defined by this policy, may not be supervised or work in the same division, department, or unit without prior approval from the Assistant Vice President of Human Resources and the Vice President in charge of Human Resources.

The purpose for the Policy, as stated, is "To ensure that no preferential treatment will be afforded to individuals based on relationships that may place undue or inappropriate influence on terms and conditions of employment."

Our review was limited to a comparative analysis of employee bank account information and, where appropriate, supporting nepotism related documentation. Payroll data disclosed 287 individuals with matching bank accounts. We identified where each employee worked, their job titles, and to whom they were direct reports. Of the 287 individuals with matching bank accounts, we identified 99 individuals who worked within the same College and or department/unit. Assuming the likelihood that these individuals were all related, we requested from the Human Resources, Records Department, all of the *Nepotism Disclosure Forms* on file for the identified employees. The results of the test were as follows:

- For 55 individuals or 56% of the population, representing 27 matching bank accounts there were no disclosure forms on file;
- For 32 individuals (32%) with 16 matching bank accounts there was a disclosure form in only one of the two related employee's personnel files; and
- For 12 individuals (12%), with 6 matching bank accounts there were disclosure forms in all of the related employees' personnel files.

The current process requires new hires to self-report relationships to current employees as is the process for changes of personal information such as home addresses, telephone numbers, emergency contacts and the like. Short of self-reporting, and based on the current approval process for hiring a relative, proactive processes to detect whether nepotism policies and procedures are being adhered to are undocumented. For example, at or around the time of hiring an individual the data provided by the applicant whether it be a home address, bank account or other data field could be used to see if there is a match to a current employee. Similarly, relationships that are formed by employees subsequent to their employment but are not reported can be detected and reviewed.

Once a *Nepotism Disclosure Form* is completed by a prospective employee, Human Resources stated that they evaluate the form for the following:

1. Will the hire/reassignment result in a line of authority with an individual for which there is a "relationship"?
2. Will the hire/reassignment create morale issues with other employees (employees claim favoritism, real or perceived)?
3. Will the hire/reassignment be in the best interest of the department/university (individual is uniquely qualified for position)?

When HR determines an individual to be the best qualified for a position and the hire takes place, a review of nepotism disclosure takes place. Nepotic relationships are appropriately addressed ensuring spouses, siblings, amorous relationships, and/or roommate situations working in the same department, have no line of authority reporting structures or any other issues. When necessary, HR will recommend restructuring the reporting relationships to ensure no direct reporting takes place and works to accommodate the affected college or department. However, it was learned in the recent case, colleges and departments need to be mindful that if either of the related parties will have responsibility anywhere in the chain of command for payroll related matters the potential for circumventing internal controls need to be evaluated and considered before approving the placement. The same holds true for other financial processes, e.g. travel and procurement.

While HR states that they approve or deny the appointment of the employee based on the cited criteria, the approval forms appear to be perfunctory and would benefit greatly if they were employed to explicitly document the circumstances and justification of each individual case.

Since the completion of our review, we have provided Human Resources with the list of the 99 individuals, and more specifically, those with no disclosure form as well as those where only one of the related individuals had the disclosure form on file. In addition, we provided the list of the remaining 188 individuals, which appear to have some form of relationship with another employee, though not in the same College or department/unit for purposes of determining status of the Nepotism Disclosure Form.

To its credit, the University acknowledges in its policies that hiring of relatives may be potentially problematic to the extent that family members are in a direct reporting relationship. The University also takes precautions to avoid favoritism in hiring based on disclosed familial relationships. While good policies are in place, the processes employed need to be re-evaluated and adjusted to strengthen our overall controls.

Recommendations

Human Resources should:	
1.1	Ensure all related individuals identified in this review have completed the required Nepotism Disclosure Form and evaluate them accordingly.
1.2	Perform further analysis whenever related employees within or outside of the reporting lines have approval authority that may require additional mitigating controls.
1.3	Develop proactive procedures for identifying potential relationships at various points of an employee's career life beyond onboarding including, but not limited to, promotion, reclassification, and/or departmental restructuring, which are required to be disclosed.
1.4	Increase education of FIU community regarding Nepotism Policy and Disclosure Forms inclusive of annual acknowledgment.

Management Response/Action Plan:

The Division of Human Resources takes great care ensuring due diligence is employed in our efforts to maintain the integrity of hiring processes/practices of FIUs valued faculty and staff. We welcome the feedback of this review report and offer the following response to the recommendations posed by the Office of Internal Audit. Additionally, we include added measures that we feel will strengthen the procedures associated with implementing this policy, fully.

- 1.1 We will ensure all related individuals identified in this review have completed the required Nepotism Disclosure Form and evaluate them accordingly. (ELR)

Implementation Date: August 31, 2016

- 1.2 Added layers of analysis are being implemented to identify when related employees, within or outside of the reporting lines, have been given approval authority that may require additional mitigating controls to capture improper nepotic instances. These analyses include review of all impacted employees involved in any type of classification change requests; alert and discuss change/impact with supervisors, assist in identifying and recommending reporting structure(s) that will avoid related employees being in the same line of authority; and, lastly, implement the appropriate reporting structure.

Implementation Date: October 31, 2016

- 1.3 We will conduct semi-annual sampling of University population to facilitate ability to identify nepotetic relationships beyond the onboarding process and we will develop an automated process for accurate execution through workflow development into HRIS portal beginning with design meeting (scheduled for July, 2016) to establish functionality of process from initial reporting of both parties through approvals of immediate supervisors to final approval of DHR authority.

Implementation Date: October 31, 2016

- 1.4 We will increase education, which begins with the New Employee Experience (including New Faculty Orientation) facilitated by Talent Acquisition and Management; Implement Conversant as an annual notification process (requiring signature acknowledgement through Employee & Labor Relations); Distribute policy reminder semi-annually via HR News & Updates; and Create process for HR Liaisons to initiate semi-annual department/unit checks to capture relationships that may have developed organically.

Implementation Date: October 31, 2016