



STATE BAR OF TEXAS

Internal Audit Services

AN ADVISORY REVIEW OF

Human Resources

Report No. 25-002

March 31, 2025

This report provides management with information about the condition of risks and internal controls as a specific point in time. Future changes in environmental factors and actions by personnel may impact these risks and internal controls in ways that this report cannot anticipate.

Report Highlights

Why Was This Review Conducted?

McConnell & Jones LLP (MJ), serving as the outsourced internal audit function (Internal Audit) for the State Bar of Texas (SBOT) performed this advisory engagement as part of the approved FY 2025 Annual Internal Audit Plan.

Business Objectives and Scope

To establish and maintain management controls and processes that ensure SBOT has qualified staff to execute the organization's functions and address challenges posed by current labor market conditions.

The advisory scope period was June 1, 2023 to September 30, 2024.

Advisory Focus

1. Does SBOT have a compensation strategy for attracting and retaining staff? Does SBOT compare their compensation strategy with competitors on a regular basis?
2. Does the organization have recruiting strategies to fill vacant positions with qualified individuals in a timely manner while meeting all HR requirements applicable?
3. Does the organization have an Employee Handbook that describes key elements of SBOT policy and is communicated to all staff?
4. Does SBOT follow an effective process to hire and onboard staff that informs new hires of SBOT policy?
5. Does SBOT have an employee separation process that considers security needs and coordinates with departments for the return of SBOT equipment and property from employees before the employee departs?
6. Has SBOT identified key positions and developed a succession planning program for those positions?
7. Does the organization have the information necessary to identify its human resource needs?

Advisory Conclusions

SBOT's Human Resources (HR) Department maintains a strong control environment with documented policies that are communicated to staff through orientation, email, and other communications. The HR Department has created an Employee Handbook that describes key elements of SBOT policy and is provided to staff during onboarding. Recruiting strategies are in place to fill vacant positions with qualified individuals in a timely manner while meeting HR requirements.

HR's internal controls are generally effective to ensure the processes to hire, on-board, and separate are completed by HR personnel.

SBOT has a compensation strategy in place that utilizes a third-party consultant to ensure their compensation is competitive in order to attract and retain staff.

The HR Director collaborates with the executive team to identify critical positions and potential candidates.

HR has the information necessary to identify its human resources needs with regard to hiring and onboarding.

What Did We Recommend?

No control gaps were noted, therefore no recommendations for addressing gaps are needed.

We identified four (4) opportunities to improve current HR operations. An improvement opportunity is when an internal control or process is effective as designed but can be enhanced.

The opportunity recommendations we suggest are:

1. Revise the hiring process document to specify who (by title) is responsible for updating Position Analysis Questionnaire (PAQ) and job descriptions.
2. Update the Exit Interview Termination Checklist to record the number of the Help Desk ticket created by the HR Department.
3. Include a scoring element in performance evaluations to identify trends or patterns of employee performance that would support important decisions, such as when addressing issues regarding underperforming employees.
4. Consider utilizing a monthly development or mentoring program for all employees, designed to build on their knowledge and skills so they may qualify to apply for positions as they become available.



We wish to thank all employees for their openness and cooperation. Without this, we would not have been able to complete our review.

Introduction

We performed this advisory engagement as part of the approved FY 2025 Annual Internal Audit Plan. The Global Internal Audit Standards, a component of the revised 2024 International Standards for the Professional Practices of Internal Auditing (IPPF), states the nature and scope of advisory services may be subject to agreement with the party requesting the services. The agreed upon nature for this advisory engagement was to address the challenges SBOT's Human Resources Department (HR) experiences due to the current labor market conditions and the impact of those conditions on the SBOT's ability to find qualified and interested employees.

Objective, Conclusion, and Internal Control Rating

The objective of this advisory engagement was focused on the following questions:

1. Does SBOT have a compensation strategy for attracting and retaining staff? Does SBOT compare their compensation strategy with competitors on a regular basis?
2. Does the organization have recruiting strategies to fill vacant positions with qualified individuals in a timely manner while meeting all HR requirements applicable?
3. Does the organization have an Employee Handbook that describes key elements of SBOT policy and is communicated to all staff?
4. Does SBOT follow an effective process to hire and onboard staff that informs new hires of SBOT policy?
5. Does SBOT have an employee separation process that considers security needs and coordinates with departments for the return of SBOT equipment and property from employees before the employee departs?
6. Has SBOT identified key positions and developed a succession planning program for those positions?
7. Does the organization have the information necessary to identify its human resource needs? Are processes and controls in place to ensure timely corrective actions for financial transactions occur and ensure that anticipated expenditures do not exceed revenues generated?

The advisory scope period was June 1, 2023 to September 30, 2024.

Focus Areas and Risk Rating Summary

We define a finding as an internal control weakness or non-compliance with required policy, law, or regulation. We define an improvement opportunity as an area where the internal control or process is effective as designed but can be enhanced. A control weakness is a failure in the implementation or performance of internal controls. A control gap occurs when a control does not exist, does not effectively mitigate a risk, or is not operating effectively.

Background

The State Bar of Texas Human Resources Department (HR) is involved with all aspects of recruiting, hiring, onboarding, and separating employees. An external consultant has been retained by the agency to evaluate market compensation and provide guidance on compensation for positions.

With regards to succession planning, the State Auditor's Office defines the process as being prepared for the risks associated with the planned or unplanned loss of knowledge that is critical to the success of the organization and to prepare employees for advancement. SBOT also follows guidance provided by the Texas Workforce Commission's Civil Rights Division. Based on this guidance, their succession planning process has been careful to avoid any risk of the appearance of favoritism in advancement, in accordance with EEOC guidelines.

The Director of HR is challenged by finding well-qualified staff to fill certain positions because of the agency's limited budget and the pool of applicants who do not meet the agency's position qualifications. The HR department also struggles with managers following procedures when separating an employee. Managers often

correspond with HR when they want to separate an employee, as opposed to when issues in the employee's performance or behavior begin to arise.

The HR Department is comprised of three (3) employees, including the HR Director. **Exhibit 1** provides the SBOT organizational structure and HR reporting lines.

We have witnessed an engrained internal control mindset that starts with the Executive Director and flows down through the entire organization. This has created an overall strong control environment with a "top-down" expectation of compliance with policies.

Human Resources operational requirements are established by the SBOT Board Policy Manual, and HR maintains internal documents that provide operational procedures for areas such as hiring, onboarding, and employee separation. The HR Director actively monitors all aspects of the HR Department, ensuring that staff are aware of policies, procedures, timelines, and expectations. Additionally, the HR director ensures the strong control environment established by management is also practiced by operational staff.

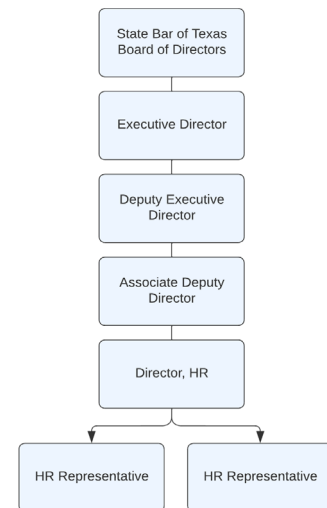


Exhibit 1. HR Organizational Chart

Detailed Business Objective, Focus Area, and Internal Control Discussion

This section of the report provides discussion on the advisory focus areas, grouped by business objective. Each business objective includes the definition, management controls in place, and the control rating based upon the effectiveness of controls and processes in place.

Business Objective #1: Governance

Focus Area Statements:

- Does SBOT have an Employee Handbook that describes key elements of SBOT policy and is communicated to all staff?
- Does SBOT have policies and procedures to hire and on-board staff that informs new hires of SBOT policy?
- Does SBOT have policies and procedures to separate staff that consider security needs and coordinates with departments for the return of SBOT equipment and property from employees before the employee departs?

Control Rating: Generally Effective

Governance refers to actions that an organization's Board and executive leadership take to establish the management controls and culture. This is accomplished through setting expectations and communicating these in written policies. Governance is responsible for allocating resources to ensure appropriate organization structures are in place so that activities are carried out effectively, responsibly, and in alignment with the organization's mission and objectives. Governance also encompasses the systems and practices that guide decision-making, risk management, and overall accountability within an organization. Sound governance practices are crucial for maintaining transparency, integrity, and ethical behavior.

Business Objective(s):

To have processes and management controls in place that ensure:

1. the Employee Handbook describes key elements of SBOT policies,

2. new hires are informed of SBOT policy during the hiring and on-boarding processes, and
3. the staff separation process:
 - a. considers the organization's security needs and
 - b. includes coordination with departments for the return of SBOT equipment and property before the employee departs.

Criteria used for Review	➤ Texas Government Code §81 - State Bar ➤ COSO – Internal Controls Integrated Framework
Identified Management Controls in Place	➤ SBOT has an Employee Handbook that describes key elements of SBOT policy, and the handbook is provided to all staff during onboarding. ➤ SBOT has policies and procedures in place to hire and on-board staff in a manner that ensures new hires are informed of SBOT policy. ➤ SBOT has developed and documented a process to terminate staff that considers security needs and coordinates with departments for the return of SBOT equipment and property from employees before the employee departs.

Conclusion:

Control Environment

SBOT's Board and management have established a strong control environment with clear expectations of compliance with established regulations and internal policies. This strong "tone at the top" is permeated down to all levels of the organization, including the Human Resources Department.

Policy and Procedure Documentation

SBOT maintains the following policies and procedure documents relevant to Human Resources processes:

- *The State Bar of Texas Employee Handbook,*
- *The State Bar of Texas Employee Hiring Process document,*
- *The State Bar of Texas New Hire Checklist,*
- *The State Bar of Texas Termination Process document, and*
- *The State Bar of Texas Exit Interview and Termination Checklist*

Hiring and Onboarding Processes

The State Bar of Texas Employee Handbook describes key elements of the policy topics relevant to employment at the State Bar of Texas. These elements include transfers and promotions, classifications of employment, expected work hours, recording of work hours, salary deductions for exempt employees, regular pay procedures, overtime pay procedures, longevity pay, merit increases and discipline. *The State Bar of Texas Employee Hiring Process* document describes the hiring and onboarding processes, including the use of the *State Bar of Texas New Hire Checklist*, which is designed to ensure all relevant policies and procedures are effectively communicated with newly hired employees during onboarding.

Termination Process

SBOT has developed and documented a formal process for handling employee separations, which are documented in the *State Bar of Texas Termination Process* document. Processes include notifying HR/Department Directors of resignation, scheduling exit interviews, completing the *State Bar of Texas Termination Checklist*, creating a Help Desk ticket to notify relevant departments of departure, disabling logical and physical access, collecting equipment, and processing final payroll period. *The State Bar of Texas Exit Interview and Termination Checklist* is designed to ensure all terminations are performed consistently with established procedures, with consideration of security and coordination between departments to ensure all SBOT equipment is returned.

Opportunity for Improvement: The Job Description/Position Analysis Questionnaire (PAQ) section of the SBOT Hiring Process document establishes requirements for updating the Job Description/Position Analysis Questionnaire (PAQ) but does not specify who is responsible for performing this step.

Opportunity Recommendation: Revise the Job Description/Position Analysis Questionnaire (PAQ) to specify who (by title) is responsible for updating the job description and PAQ.

Business Objective #2: Operations

Focus Area Statements:

- Does SBOT have a compensation strategy for attracting and retaining staff?
- Does SBOT compare their compensation strategy with competitors on a regular basis?
- Does the organization have recruiting strategies to fill vacant positions with qualified individuals in a timely manner while meeting all HR requirements applicable?

Control Rating: Generally Effective

Operations are the processes, controls, and technology in place to ensure that the respective department or function executes its responsibilities in an effective and efficient manner.

Business Objectives:

The following business objectives are covered in Operations:

- To have processes and management controls in place to ensure an effective process to hire and onboard staff.
- To have processes and management controls in place to ensure the employee separation process considers security needs and coordinates with departments for the return of SBOT equipment and property from departing employees.
- To have a competitive compensation strategy in place to attract and retain staff.
- To fill vacant positions with qualified individuals in a timely manner while meeting all applicable HR and regulatory requirements.

Criteria used for Review	➤ Texas Government Code §81 State Bar ➤ SBOT Hiring Process ➤ SBOT Termination Process ➤ SBOT Employee Handbook ➤ SBOT Compensation Summary ➤ COSO - Internal Controls Integrated Framework
Identified Management Controls in Place	➤ SBOT has policies and procedures in place to hire and on-board staff in a manner that ensures new hires are informed of SBOT policy. ➤ SBOT uses a new employee checklist to ensure all recruitment, hiring, and onboarding processes are performed consistently and aligned with SBOT policies and procedures. ➤ SBOT has policies and procedures in place to separate staff in a manner that considers security needs and coordinates with departments for the return of SBOT equipment and property from employees before the employee departs. ➤ SBOT uses an employee termination checklist to ensure employee separation processes are performed consistently and aligned with SBOT policies and procedures. ➤ SBOT has a documented compensation strategy summary to communicate its strategies for attracting and retaining staff.

- SBOT has contracted with an external vendor to perform compensation comparisons to ensure SBOT's compensation strategy is comparable to similar organizations.
- SBOT has documented a recruitment plan to establish processes for filling vacant positions with qualified individuals in a timely manner and meet all applicable HR requirements.

Conclusion:

Onboarding

SBOT has established internal controls for recruitment, hiring, onboarding, separation, and compensation. These controls include the completion of a New Employee Folder Checklist, which ensures each new employee acknowledges that they received and reviewed the Employee Handbook, which communicates several important SBOT policies to the employee. These policies include those related to transfer and promotion, classifications of employment, work hours, recording work hours, salary deductions for exempt employees, regular pay procedures, overtime pay procedures, longevity pay, merit increases, and discipline.

Employee Separation

SBOT has implemented internal controls for processing employee terminations, which include the use of an Exit Interview Termination Checklist. This checklist was developed to ensure that several critical steps are followed, such as documenting the acceptance of the resignation letter, scheduling and conducting an exit interview, notifying the Computer Services and Facilities Manager to disable access, and confirming the last timesheet and final payroll information.

Compensation Strategy

SBOT's compensation strategy includes offering longevity pay and planning for merit increases. To ensure their compensation practices remain competitive, SBOT has contracted with an external organization to conduct market surveys within the public market segment. These surveys are conducted as needed, depending on market conditions. The HR Director collaborates closely with the consultants to make ongoing adjustments to compensation, considering job duties, time required to complete tasks, and compensation across all departments to ensure appropriateness. The Executive Director has the final approval of the consultants' recommendations. However, the HR department faces challenges in attracting and retaining well-qualified staff due to the agency's limited budget and the pool of applicants are not meeting the agency's position qualifications.

Recruitment and Filling Vacancies

SBOT has a comprehensive recruitment plan that ensures all open positions are communicated to employees via email and advertised on the State Bar's website and various social media platforms such as LinkedIn, Facebook, and Instagram. Additionally, open positions are posted on the WorkInTexas, Texas Law Center, and Legal Career Center websites. Local bar associations are also notified of all open positions.

The Department Director has the discretion to post an open position internally if there are State Bar employees who meet the minimum qualifications. If the initial pool of applicants is insufficient, the job posting is re-advertised externally for an additional period.

The Transfers and Promotions section of the Employee Handbook emphasizes that when a position vacancy occurs, opportunities for internal promotion are considered to fill the position with the most qualified individual available.

Over the past four years, SBOT has experienced similar turnover trends to other state agencies but has experienced comparatively lower rates than the state at large. **Exhibit 2** shows an analysis of SBOT's turnover rate against the State average over the last four years

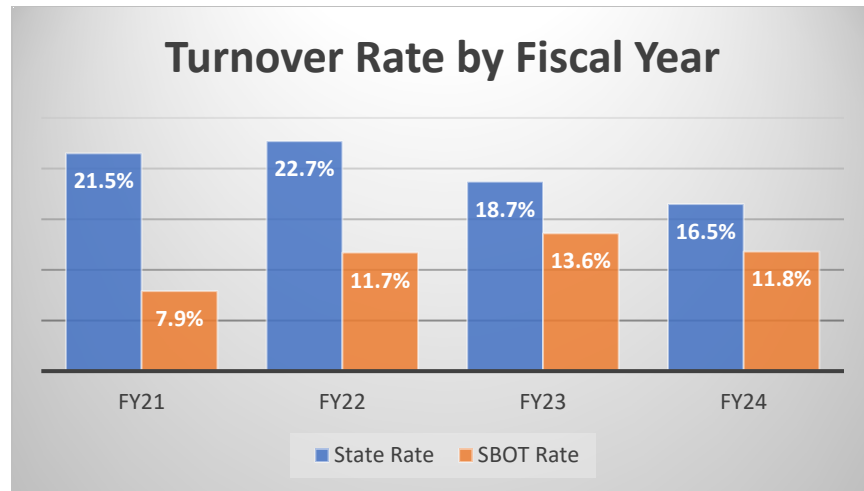


Exhibit 2. SBOT's Turnover Rate Compared to State Average

Note: The graph above indicates the four previous fiscal years for the State and SBOT. It should be noted that SBOT's fiscal year begins on June 1 whereas the State Fiscal Year begins on September 1.

Opportunity for Improvement: The notification of Facilities Manager, Computer Services, and Payroll portion of the Exit Interview Termination Checklist implies that a help desk ticket has been created and that equipment is collected, however, the checklist (as is) is not explicit as to whether these tasks have been completed.

Opportunity Recommendation: Update the Exit Interview Termination Checklist to include a space to record the number of the Help Desk ticket created by the HR Department. This will make it easier to track the status of certain termination tasks, such as collection of equipment, revocation of network access, and revocation of physical access.

Business Objective #3: Organizational Planning

Focus Area Statement:

- Has SBOT identified key positions and developed a succession planning program for those positions?

Control Rating: Generally Effective

Organizational planning is a strategic process that ensures an organization achieves its objectives through risk management, staffing strategies, and continuous monitoring. This comprehensive approach helps ensure that the right people are in the right roles at the right time to effectively manage risks that could affect the organization's ability to achieve its objectives.

Business Objective(s):

To have a management structure in place to identify potential candidates to assume interim positions in the event of planned or unplanned loss of a key employee and provide all employees with the opportunity to grow in their skills and knowledge so that they meet the qualifications to apply for key positions as they become available.

Criteria used for Review

➡ Texas Government Code §2056.0021. Workforce Planning.

**Identified
Management
Controls in Place**

- ➡ The HR Director collaborates with the executive team to identify key positions and individuals who could manage operations if or when key staff positions become vacant or available.

Conclusions:

The purpose of succession planning, as defined by the State Auditor's Office, is to prepare the organization for risks associated with the planned or unplanned loss of knowledge that is critical to the success of the organization and to prepare employees for advancement.

SBOT's HR Director collaborates with the executive team to identify key positions that have a significant effect on an organization due to planned or unplanned loss of knowledge. The State Bar of Texas expressed that interim personnel do not receive preferential treatment for long-term positions. All qualified (internal and external) candidates are considered for positions based on an evaluation of necessary skills and experience.

Opportunity for Improvement: SBOT HR relies on department management to implement a strategy to manage operations if or when key staff positions become vacant or available.

Opportunity Recommendation: SBOT HR should consider implementing an employee growth development plan to include templates, so managers have consistent guidance and tools across the agency to have qualified candidates, monthly developmental or mentoring meetings for all employees, to build on their knowledge and skills so they meet qualifications to apply for key positions as they become available.

Business Objective #4: Information Management, Communications, and Reporting**Focus Area Statements:**

- Does the organization have the information necessary to identify its human resources needs?

Control Rating: Generally Effective

Information Management and Communications

Information is necessary for an organization to execute internal control responsibilities and support the achievement of its objectives. Management obtains or generates and uses relevant and quality information from both internal and external sources to support the functioning of internal control. Communication is the continual, iterative process of providing, sharing, and obtaining necessary information. Internal communication is the way information is disseminated throughout the organization, flowing up, down, and across the entity. Internal communication enables staff to receive a clear message from senior management that control responsibilities must be taken seriously. External communication enables inbound communication of relevant external information and provides information to external parties in response to requirements and expectations.

Reporting

Reporting is the metrics, management reports, and dashboards used by management to monitor activities and make business decisions.

Business Objectives:

To have a management control structure in place to ensure HR is notified of department needs in order to provide tools and support.

Criteria used for Review	➤ Texas Government Code §2056.0021 Workforce Planning
Identified Management Controls in Place	➤ SBOT has implemented a formal procedure for ensuring that recruitment, hiring, and onboarding needs are addressed. ➤ The Human Resources Department tracks and monitors turnover rates to determine SBOT hiring needs. ➤ SBOT employee evaluations are performed annually and retained by HR for EEOC compliance and performance tracking purposes.

Conclusions:

Human Resources has developed and documented formal policies and procedures to ensure that recruitment, hiring, and onboarding needs are identified and met. Additionally, SBOT conducts exit interviews to determine information relevant to why individuals choose to leave SBOT. Human Resources also tracks and monitors turnover rates to evaluate human resources needs to a degree. However, the SBOT employee evaluation process does not capture performance scores in a manner that would allow SBOT to effectively identify trends or patterns of employee performance. This lack of information tracking increases the risk that problems arising in employee performance are unidentified or that SBOT is unable to quickly respond to such situations due to lack of documented support of an employee's performance issues.

Opportunity for Improvement: SBOT has a performance evaluation process, but there is no standardized performance goals established for the agency (e.g., quality of work, quantity of work, goal achievement, job knowledge, communication skills, initiative, problem-solving abilities, attendance, punctuality, customer feedback) or rating scale.

Opportunity Recommendation: Include objectives in the performance evaluation for employees to communicate what is important and expected of them in their roles. Consider Including a scoring element in performance evaluations that will effectively identify trends or patterns of employee performance that would support important decisions, such as when to separate underperforming employees.