



Lexington-Fayette Urban County Government
OFFICE OF INTERNAL AUDIT

INTERNAL AUDIT REPORT

DATE: November 10, 2014

TO: Jim Gray, Mayor

CC: Sally Hamilton, Chief Administrative Officer
Glenn Brown, Deputy Chief Administrative Officer
Aldona Valicenti, Chief Information Officer
William O'Mara, Commissioner of Finance & Administration
Janet Graham, Commissioner of Law
John Maxwell, Director of Human Resources
Phyllis Cooper, Director of Accounting
Susan Straub, Communications Director
Urban County Council
Internal Audit Board

FROM: Bruce Sahli, CIA, CFE, Director of Internal Audit
Teresa Gipson, CFE, Internal Auditor

RE: Form I-9 Audit

Background

Form I-9 is used for verifying the identity and employment authorization of individuals hired for employment in the United States. All U.S. employers must ensure proper completion of Form I-9 for each individual they hire for employment in the United States. This includes citizens and noncitizens. Both employees and employers (or authorized representatives of the employer) must complete the form. On the form, an employee must attest to his or her employment authorization. The employee must also present his or her employer with acceptable documents evidencing identity and employment authorization. The employer must examine the employment eligibility and

identity document(s) an employee presents to determine whether the document(s) reasonably appear to be genuine and relate to the employee, and record the document information on the Form I-9. Employers must retain Form I-9s for a designated period. The form must be available for inspection by authorized U.S. Government officials from the Department of Homeland Security, Department of Labor, or Department of Justice.

At LFUCG, Form I-9s are completed by Payroll Coordinators as part of the initial hire packet at the beginning of employment. These forms are then submitted to Payroll and ultimately reside in the employee's file in the Division of Human Resources.

Scope and Objectives

The general control objectives for the audit were to determine that:

- Form I-9s are completed in accordance with federal guidelines
- Form I-9s are reviewed and signed by LFUCG personnel
- Form I-9s are adequately maintained
- The retention policy for Form I-9 is appropriate and being followed

The scope of the audit included active employees as of July 7, 2014 and terminated employees from June 30, 2011 through June 30, 2014.

Statement of Auditing Standards

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

Audit Opinion

In our opinion, the controls and procedures did not provide reasonable assurance that the general control objectives were being met. Opportunities to improve controls are included in the Summary of Audit Findings.

Priority Rating Process

To assist management in its evaluation, the findings have been assigned a qualitative assessment of the need for corrective action. Each item is assessed a high, moderate, or low priority as follows:

High - Represents a finding requiring immediate action by management to mitigate risks and/or costs associated with the process being audited.

Moderate – Represents a finding requiring timely action by management to mitigate risks and/or costs associated with the process being audited.

Low - Represents a finding for consideration by management for correction or implementation associated with the process being audited.

SUMMARY OF AUDIT FINDINGS

Finding #1: Form I-9s Missing From Personnel Files

Priority Rating: High

Condition:

To comply with the Immigration Reform and Control Act of 1986 (IRCA), employers must verify that individuals hired to perform labor or services are authorized to work in the United States. Form I-9 must be completed for every new employee hired after November 6, 1986. Based on test work performed, we noted that 11 of 74 (15%) active employee files did not have a Form I-9 in their employment file. The Division of Human Resources personnel indicated that Payroll Coordinators at the department level are responsible for having employees complete the forms and send forms to Human Resources to be maintained in the employment file. The Division of Human Resources examined their scanned files in an effort to locate the missing Form I-9s. The missing forms were not found during our fieldwork.

Effect:

Failure to complete and maintain copies of Form I-9 as required by federal law could result in civil penalties in an amount of not less than \$110 and not more than \$1,100 for each violation.

Recommendation:

We recommend that Payroll Coordinators complete a Form I-9 on the first day of work for all new employees. The form should be submitted to the Division of Human Resources for addition in the PeopleSoft HCM module. Human Resources should also develop a process to review the files of all new hires to provide proper oversight of this federal requirement and ensure properly completed Form I-9s are on file in the Division of Human Resources. The Office of Internal Audit provided the Division of Human Resources a list of the exceptions noted during the audit so that corrective action could be taken to address them.

Due to the extent of errors and omissions noted in our random sample of employee files, we also recommend Human Resources examine all active employee files to determine if Form I-9s are present and accurately completed. Any exceptions noted during this examination should be promptly corrected to ensure full compliance with federal requirements and avoid the risk of civil penalties.

Director of Human Resources Response:

The Division of Human Resources has aligned with the Division of Accounting to ensure that individuals hired by the LFUCG have a completed I-9 prior to entry into the PeopleSoft HCM module. The Division of Human Resources will review the documents prior to entry to ensure they are complete and error free. After the information has been entered into PeopleSoft, the documents will go to the Division of Accounting for another level of review. The Division of Human Resources will plan a full active employee file audit to be completed during fiscal year 2016. This audit is extensive and will require budgeted overtime hours that we do not have in the current FY.

Chief Administrative Officer Response:

The CAO is in agreement with the action plan outlined by the Director of Human Resources. Additionally, consideration will be given to budget overtime hours for FY 16 for the purposes of a full active employee file audit.

Finding #2: Form I-9s Not Completed Correctly

Priority Rating: High

Condition:

Form I-9 must be completed correctly according to explicit instructions on the form and also as stated in the Handbook for Employers Guidance for Completing Form I-9 published by the U.S. Citizenship and Immigration Services. Form I-9 contains three sections to complete. Section 1 is to be completed by the employee and is an attestation of their identity and citizen status. Employers are responsible for reviewing and ensuring that employees fully and properly complete Section 1. Form I-9, Section 2 is completed by the employer

and consists of verifying an employee's identification documents and must be completed within three business days of hire. Section 3 is for re-verification and re-hires; however, LFUCG normally completes a new form for all re-hires. We tested 63 active employee Form I-9s for accuracy and completeness and noted the following issues:

- 32 or 51% were not completed correctly (i.e. 28 were incomplete or contained incorrect information when certifying documents in Section 2, and the remaining forms had issues with Section 1 and/or other parts of the form);
- 15 or 24% were not signed within three business days of hire (i.e. nine were not signed and/or dated by the employee, and six were signed from 2 to 249 days late by applicant);
- 13 or 21% of the correct version of Form I-9s for that time period were not used. Employers must use the revised and updated version of Form I-9;
- 8 or 13% were not signed by the hiring official (i.e. Payroll Coordinator);
- 4 or 6% were not properly corrected after mistakes were made during completion of the form (Form I-9 instructions state that employers or applicants should draw a line through the portions of the form that contain incorrect information, enter the correct information, and initial and date the correction);
- 4 or 6% were re-hire employees and a new form was not completed, nor were they recertified on the existing Form I-9 from their previous employment (If an employee is re-hired within three years of their previous Form I-9, they could be re-verified; however, LFUCG normally completes a new form. Three applicant's re-hire date exceeded three years.)

Effect:

Failure to complete and maintain copies of Form I-9s as required by federal law could result in civil penalties in an amount of not less than \$110 and not more than \$1,100 for each violation.

Recommendation:

We recommend that Payroll Coordinators be thoroughly trained on the proper completion of Form I-9. Training should include the importance of completing the current version of the form correctly and timely, as well as providing adequate instruction on correcting mistakes, and ensuring that Payroll Coordinators review, sign, and date forms. This training should be provided by the Division of Human Resources. Human Resources should also develop a process to review the files of all new hires to provide proper oversight of this federal requirement and ensure properly completed Form I-9s are on file in the Division of Human Resources. The Office of Internal Audit provided the Division of Human Resources with a list of the exceptions noted during the audit so that corrective action could be taken to address them.

Due to the extent of errors and omissions noted in our random sample of employee files, we also recommend Human Resources examine all active employee files to determine if Form I-9s are present and accurately completed. Any exceptions noted during this examination should be promptly corrected to ensure full compliance with federal requirements and avoid the risk of civil penalties.

Director of Human Resources Response:

The Division of Human Resources and the Division of Accounting teamed up to provide comprehensive and mandatory Payroll Coordinator training on October 15, 2014 which included specific instructions regarding how to complete the form, timeliness of submittal, repercussions of submitting incomplete or incorrect forms, and the correcting of errors. Slides are provided relative to the training that was completed are incorporated herein by reference and attached hereto. This training will be offered in the future on an as-needed basis.

Chief Administrative Officer Response:

The CAO agrees that training should be held in the future on an as-needed basis.

Finding #3: Form I-9s Not Maintained for Terminated Employees
Priority Rating: High

Condition:

LFUCG must retain an employee's completed Form I-9 for as long as the individual is employed. Upon termination, Human Resources has established a timeframe to maintain Form I-9s up to three years after termination, consistent with federal requirements. We tested 59 terminated employee files to determine if Form I-9 had been retained. We noted 15 or 25% of terminated employees did not have a Form I-9 in their personnel file. These employees were all hired after 1986 and should have completed a Form I-9 during their hiring process. It is unknown whether a Form I-9 was initially inserted in the employee files and lost, or if no Form I-9 was ever completed. Additionally, there were two terminated employees whose personnel files could not be located.

Effect:

Failure to complete and maintain copies of Form I-9s as required by federal law could result in civil penalties in an amount of not less than \$110 and not more than \$1,100 for each violation.

Recommendation:

Human Resources should develop a process to review the files of all new hires to provide proper oversight of this federal requirement and ensure properly completed Form I-9s are on file in the Division of Human Resources. Once this process is in place, care should be taken to ensure all Form I-9s are retained for all terminated employees in compliance with federal requirements. As a best practice, Human Resources should consider maintaining Form I-9s separately from other personnel file documents for ease of disposal after the required retention period has elapsed.

Director of Human Resources Response:

We believe that the full active employee file audit will ensure better maintenance of terminated files; thus, this issue should correct itself. In addition, we've requested a new folder to be created in Onbase so that I-9s can be scanned separately into their own folders for ease of locating for both existing and terminated employees for any future audit purposes.

Chief Administrative Officer Response:

The creation of a new folder in Onbase will establish a more efficient process of filing and retaining Form I-9s. The CAO is in support of this action.

Form I-9 Employment Eligibility and Verification

Form I-9; Section 2: Employer Review and Verification

- Section 2 must be completed no later than the third day of employment

Section 2. Employer or Authorized Representative Review and Verification
(Employers or their authorized representative must complete and sign Section 2 within 3 business days of the employee's first day of employment. You must physically examine one document from List A OR examine a combination of one document from List B and one document from List C as listed on the "Lists of Acceptable Documents" on the next page of this form. For each document you review, record the following information: document title, issuing authority, document number, and expiration date, if any.)

Employee Last Name, First Name and Middle Initial from Section 1: _____

List A Identity and Employment Authorization	OR	List B Identity	AND	List C Employment Authorization
Document Title: _____		Document Title: _____		Document Title: _____
Issuing Authority: _____		Issuing Authority: _____		Issuing Authority: _____
Document Number: _____		Document Number: _____		Document Number: _____
Expiration Date (if any)(mm/dd/yyyy): _____		Expiration Date (if any)(mm/dd/yyyy): _____		Expiration Date (if any)(mm/dd/yyyy): _____

Form I-9; Section 2: Employer Review and Verification

- Documents
 - Documents cannot be expired
 - Must be originals – no photocopies
- Record the Documents
 - Use the correct column
 - Do not record List B documents in the List C column
- Use the correct lines in each column & complete
 - Document Title
 - Issuing Authority
 - Document #
 - Expiration Date

Form I-9; Section 2: Employer Review and Verification

- Make legible copies of acceptable documents for future audits.
- If corrections are needed DO NOT WHITEOUT instead cross out incorrect information & initial.

Certification

- Representative completing the verification needs to sign & date the I-9 form.

Certification

I attest, under penalty of perjury, that (1) I have examined the document(s) presented by the above-named employee, (2) the above-listed document(s) appear to be genuine and to relate to the employee named, and (3) to the best of my knowledge the employee is authorized to work in the United States.

The employee's first day of employment (*mm/dd/yyyy*): (See instructions for exemptions.)

Signature of Employer or Authorized Representative		Date (<i>mm/dd/yyyy</i>)	Title of Employer or Authorized Representative	
<input type="text"/>		<input type="text"/>	<input type="text"/>	
Last Name (<i>Family Name</i>)		First Name (<i>Given Name</i>)	Employer's Business or Organization Name	
<input type="text"/>		<input type="text"/>	<input type="text"/>	
Employer's Business or Organization Address (<i>Street Number and Name</i>)		City or Town	State	Zip Code
<input type="text"/>		<input type="text"/>	<input type="text"/>	<input type="text"/>