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Human Resources Internal Audit

HUMAN RESOURCES MANAGEMENT

Introduction ...

The human resource manager is directly responsible for the overall administration, coordination, and evaluation of the human resources management function. Best practices in Human Resources Management (HRM) include performing an internal audit of the HRM function to ensure policies, practices, and performance is current and correct.

The purpose of an internal audit is to help ensure your organization is compliant with business and employment law and to assess the effectiveness of HRM programs. The approach is to perform a detailed analysis and inspection of the HRM functions and is scalable, such that, some audits analyze a specific regulation or program, while a comprehensive audit will address all areas of HRM.

An internal audit is intended to be a quality control and quality assurance tool.

In today's customer-centric environment, HRM is critically important for an organization remain viable and capable to fulfill mission, vision, and values declarations. As a result, HRM plays a pivotal role in the world because people are truly the only thing that differentiates one organization from another. Organizations may replicate processes, materials, and structures of other successful organizations, but only the talent of an organization generates the ability to produce value and achieve business goals.

Even the HRM staff can benefit from personality assessments, performance metrics, and employee feedback. Numerous varied challenges confront HRM professionals, who must be capable of handling situations that arise daily in the workplace. Patience and flexibility will be necessary as HR personnel interact with people of widely differing levels of experience, intelligence, emotional intelligence, education, knowledge, skills, and abilities.

The key factor in effective organizational leadership is the authenticity of the leader.

HR generalists have a broad spectrum of responsibilities: staffing the organization, training and developing employees at all levels, managing a diverse workforce, maintaining a fair and equitable compensation program, developing personnel policies and procedures, planning ways to meet the human resource needs of the future, and ensuring that internal policies and programs conform to all laws that affect the workplace.

Larger organizations require specialists with technical knowledge and skills in specific areas of human resource management. The five most common areas of specialization are described here. Workforce Planning and Employment, HR Development, Total Rewards, Employee and Labor Relations, and Risk Management.

Human resource information systems (HRIS) specialists manage the computerized flow of information and reports about employees, their benefits and programs.

Many organizations conduct a survey to gauge employee satisfaction, culture, engagement, and over-all organizational employee evaluation.

A word cloud graphic with the words "Internal Audit" in large blue font. Surrounding these words are smaller words in various orientations and colors (blue, green, orange) including "compliance", "risk", "independent", "add value", "effective", "improve", "efficient", "assurance", and "objective".

Internal Audit

An HR audit can be structured to be either comprehensive or specifically focused, within the constraints of time, budgets, and staff. There are several types of audits, and each is designed to accomplish different objectives. Some of the more common types are:

1. Compliance. Focuses on how well the organization is complying with current federal, state, and local laws and regulations.
2. Best practices. Helps the organization maintain or improve a competitive advantage by comparing its practices with those of companies identified as having exceptional HR practices.
3. Strategic. Focuses on strengths and weaknesses of systems and processes to determine whether they align with the HRM alignment with the organization's strategic plan.
4. Function-specific. Focuses on a specific area in the HR function (e.g., payroll, performance management, records retention).

There are many company liability issues that can result from improper employment records maintenance procedures. Regular review of personnel files and relevant maintenance, retention and destruction practices can reduce the number of lawsuits and penalties regarding violations of laws relevant to medical privacy, nondiscrimination, I-9s, identity theft, record retention and record destruction.

Take the time to double check even the mundane tasks of personnel filing and retention practices. Are your employment records kept locked and confidential? Are personnel files up to date? Are documents getting filed in a timely manner? Are documents going into the correct files? Are security procedures for maintaining medical and other protected information continually updated to be in compliance with new laws and best practices and to avoid new risks? The best way to keep your company in compliance with employment documentation is to conduct periodic personnel database and paper filing and maintenance procedures audits.

Employee Relations

Review your Employee Relations program. The term 'employee relations' refers to a company's efforts to manage relationships between employers and employees. An organization with a good employee relations program provides fair and consistent treatment to all employees so they will be committed to their jobs and loyal to the company. Such programs also aim to prevent and resolve problems arising from situations at work.

Employee relations will be concerned with communications between management and employees concerning workplace decisions, grievances, conflicts, problem resolutions, unions, and issues of collective bargaining. An audit of employee relations issues includes review of communication processes, discipline procedures, and performance metrics.

Assess your compliance with federal, state, and local fair employment laws when you audit your employee relations function of HR. The U.S. Equal Employment Opportunity Commission provides extensive technical guidance and support for employers who are not aware of their obligations under Title VII or other anti-discrimination laws such as the Americans with Disabilities Act and the Genetic Information Nondiscrimination Act.

Productive working relationships depend upon open, honest communications. That is why we strongly encourage direct communication between employees and their supervisors as the best means to enhance understanding, clarify expectations, and quickly resolve most issues. The objective is to create a culture of trust and to align activities with goals.

Therefore, the most important element for successful relationships with employees is communication. To feel engaged in the business, employees need to be informed of what is going on with the company, including management's plans, and how those plans may affect their jobs. Conversely, when management withholds information, this can result in mistrust of leadership and damage to employee morale.

The audit analysis should determine if Management keeps workers informed of the latest developments by any number of means, including email announcements, newsletters, employee portals, regular meetings, and special events. Effective communication goes both ways; employees should feel as though their opinions, feelings, and concerns are being heard by managers with adequate attention and response.



Recruitment

Review your HR recruitment function by looking at the strategy you use to attract qualified applicants; assess your strategy for targeting active job seekers and passive candidates.

Even if your organization does not meet the threshold for employers covered under fair employment laws such as Title VII of the Civil Rights Act of 1964, it is good business practice to extend equal opportunity for employment to all applicants by avoiding the use of non-job-related factors in recruitment and selection processes.

The key concept is that organizational culture values diversity and inclusion.

Review your application process to determine whether the organization is interviewing candidates based on qualifications and to ensure hiring managers refrain from the use of unlawful or illegal interview questions. The prohibited questions are those which will naturally produce information regarding an applicant's race, color, religion, national origin, sex, age, height, weight, marital status or disability.

The only permissible question concerning disability is whether the applicant can, with or without reasonable accommodations, perform the essential duties of the job. The application should also include the following: an equal employment opportunity statement; an acknowledgment that if the applicant is hired, the employment will be "at-will;" and this can be included in an official offer letter. Standard probationary periods are 3 to 6 months.

It is important that interviews for job openings be structured, so that each candidate is asked the same questions. This permits more accurate comparisons, ratings and rankings. The employment audit should determine whether (a) interviewers use a prepared set of questions, with all candidates asked the same questions, (b) some open-ended questions are asked to provide the candidate with an opportunity to talk about relevant education or experience, character, personality, and personal values.

An audit of recruiting and hiring practices can quantify turnover trends, reveal gaps in meeting needs, and help the organization predict future openings. It can also identify potential issues with discrimination or diversity.

The goal is to 'brand' the organization as a great place to work and contribute.



Orientation & Onboarding

Review your HR Orientation and Onboarding program and gain feedback from recent participants. Today, orientation is not a stand-alone event but part of a bigger process, often called onboarding. Human resource professionals view onboarding as an opportunity for organizational leaders to exercise their talents, and for managers to do more to ensure that new members become productive and valued members of their staff.

Every phase of the onboarding process with a new employee is important, from before they begin their job, through their first month, to the successful completion of their first year. A mentor should be assigned to each new member to help them successfully navigate the political field and better understand the processes, procedures, and culture.

Additionally, as current members are promoted to new positions, they require orientation and onboarding too. The audit should assess this process and recognize opportunities.

A key part of the onboarding process is early follow-up to develop trust and rapport.

Onboarding, also known as organizational socialization, denoting the mechanism through which new members acquire the necessary knowledge, skills, and behaviors to become effective organizational members engaged in their work contribution with a great attitude.

Orientation, Onboarding, and Alignment covers matters related to training, functional competencies, mentoring programs, and interactive meetings with two-way feedback.

HRM function is to ensure managers engage new members in tasks that help them understand business processes and internal customer service excellence.

HRM best practices ensure effective onboarding that will result in a faster learning curve for new hires, improved communication, and a more productive and engaged workforce. Simply put, good onboarding leads to good retention rates; therefore, successful onboarding is a key part of any talent management strategy.

The key purpose of orientation and onboarding is to help the employee fit into the greater organizational process, so they are engaged and productive, making a positive contribution toward personal and organizational goals.

An important factor to successful onboarding is for all organizational members to work together seamlessly in teamwork to support new member onboarding. Simply put, good onboarding leads to good retention rates; therefore, successful onboarding is a key part of any talent management strategy.

Performance Management

Review your HR performance management function by looking at the participation and effectiveness of the Performance Management System in place.

Performance management matters — it touches the core of every business — but the success of these initiatives hinges on designing and deploying programs that address employee needs and the culture of the organization. The term performance management is also related to total quality management (TQM) programs received utmost importance for achievement of superior standards and quality performance.

As HRM leaders revisit their performance management strategies, conflicts emerge as to whether performance ratings should be kept or scrapped. We are of the mindset, 'if it can be measured ~ it can be managed' and so performance metrics matter. Managing people and motivating them to achieve a company's goals are the most difficult parts of being in business.

Performance management can be regarded as a systematic process by which the overall performance of an organization can be improved by improving the performance of individuals within a team framework. It is a means for promoting superior performance by communicating expectations, defining roles within a required competence framework, and establishing achievable benchmarks.

Tools such as job design, leadership development, training and reward system received an equal impetus along with the traditional performance appraisal process in the new comprehensive and a much wider framework. Performance management is an ongoing communication process which is carried between the supervisors and the employees throughout the year. The process is very much cyclical and continuous in nature.

Performance management can be regarded as a proactive system of managing employee performance for driving the individuals and the organizations towards desired performance and results. It is about striking a harmonious alignment between individual and organizational objectives for accomplishment of excellence in performance.

The correct focus for a performance management system is to develop a culture of trust, excellence, and achievement.



Compensation

Review your compensation strategy and calculation formula. Typically, a position salary review will occur before the annual employee performance review to ensure the employee pay and bonus structure is correct and competitive in comparison to area standards. The audit may investigate payroll data update procedures and accuracy.

The Fair Labor Standards Act of 1938 covers minimum wage, overtime rules, work hours, and exempt and non-exempt employee classifications. Most employers are subject to the federal minimum wage laws, therefore, your HR audit must include oversight of your pay practices as well as whether you're properly classifying employees as non-exempt and exempt, those entitled to overtime and those who aren't, respectively.

The federal Fair Labor Standards Act requires that non-exempt employees be paid overtime for all hours worked in excess of forty (40) hours per week. The audit should review whether employees are properly categorized as exempt or non-exempt and that overtime is being authorized in advance, recorded and paid.

An audit of these areas includes reviewing compensation, overtime, employee classifications (exempt/non-exempt), and time records. Incomplete or missing I-9 forms can result in an employer being fined between \$100 and \$1000 for each failure to accurately complete an I-9 form.

Observe your applicable state minimum laws, too. Reviewing your pay practices doesn't stop with the FLSA. Examine your pay records to ensure that your company is compensating employees with equal pay for comparable work. Wage and Hour Issues

The audit should also ensure that the employer has a time keeping system which accurately records time worked for all non-exempt employees.

The FLSA requires employers to keep records on wages, hours, and other items, as specified in DOL recordkeeping regulations. Most of the information is of the kind generally maintained by employers in ordinary business practice and in compliance with other laws and regulations.



Benefits

Review your employee benefit plans to ensure that all employees receive equal benefits.

In addition to compliance with anti-discrimination laws, don't provide different benefits to employees based on non-job-related factors, such as race, national origin, religion or sex.

In light of employers' obligations under the Patient Protection and Affordable Care Act, look at what your specific requirements are for providing future health benefits to employees.

Your audit also may include comparing your company's benefits package to benefits offered by your competitors. Access benefits survey materials from consulting firms or online research, or establish collegial relationships with competing businesses to exchange information about your respective benefits plans.

In 1996, Congress passed the Health Insurance Portability and Accountability Act (HIPAA), which added provisions regarding nondiscrimination in wellness programs, prohibiting companies from discriminating against individuals based on their health.

In 2006, more regulations were added that divided wellness programs into two categories:

1. Programs that do not require individuals to meet a health standard to receive an incentive or offer no incentive. (Fitness center discount or reimbursement programs, smoking cessation programs, weight loss programs.)
2. Programs that require individuals to meet a health standard in order to receive an incentive. (Incentives tied to biometric screenings, or participating in a challenge to receive an incentive.)

HIPAA laws pertain specifically to the second type of wellness program. To meet the nondiscrimination requirements, these programs had to meet a number of conditions: how much of an incentive can be offered, reasonable design, frequency of opportunity to qualify, reasonable alternative standards and a way to qualify for the incentive.



Safety

Review your organizational safety program.

The Occupational Safety and Health Act of 1970 mandates safety rules for employers covered under the federal law; state laws for workplace safety vary according to the jurisdiction. Regardless of whether your organization is subject to federal laws, state laws or both, employers have an obligation to provide a safe work environment for employees.

This means your HR audit should ensure that you have eliminated obvious threats to workplace safety -- use proper identification and warnings for hazardous chemicals and dangerous equipment. In addition, conduct a risk assessment for employee training on how to improve workplace safety through reporting potentially dangerous situations. Your audit of safety measures must include an evaluation of your evacuation plans and tips on how to respond to incidents of workplace violence.

The U.S. Occupational Safety and Health Administration is available to employers who want technical assistance in auditing their safety and risk-management processes. First and foremost, the employer must demonstrate a sincere effort to develop an effective health and safety program and ensure managers, supervisors, and employees are trained to understand and deal with workplace hazards. The Four-Point Workplace Program is based upon the Safety and Health Program Management Guidelines issued by OSHA in January 1989.

Document your activities in all elements of the Four-Point Workplace Program. Essential records, including those legally required for workers' compensation, insurance audits and government inspections must be maintained as required by law.

Keeping records of your activities, such as policy statements, training sessions, safety and health meetings, information distributed to employees, and medical arrangements made, is greatly encouraged. Maintaining essential records also will demonstrate sound business management as supporting proof for credit applications, for showing "good faith" in reducing any proposed penalties from OSHA inspections, for insurance and other audits, and aid efficient review of your current safety and health activities for better control of your operations and to plan improvements.



Record Keeping

An internal self-audit is a prudent way to measure compliance with federal and state laws. Non-compliance, which is discovered internally, prior to investigation by a governmental agency such as the Equal Opportunity Commission or the Department of Labor and before complaints or lawsuits by employees, can be more readily corrected, often without additional costs, penalties, or adverse publicity.

Auditing your human resources functions mitigates your organization's risk for potential liability related to unfair employment practices. An effective audit examines compliance with applicable federal, state and local laws, and can prevent lawsuits and fines. Conducting a comprehensive internal audit requires a complete assessment of your HR activities starting with what happens when you recruit applicants and continuing until after the employer-employee relationship ends.

Record keeping as part of the HRM function and can be a prodigious, complex endeavor. HR Must keep records of Benefits, Pay, Tax, Pension, Training, Discipline etc. Retaining these records is complex and time consuming. However, in our business environment where regulatory bodies frown at Organizations for non-compliance of such essential employee record, effort should be put towards acquiring, organizing and accurately documenting of employee records from hiring to termination. It further helps to track pertinent data on employees and plan for future initiatives.

Not only is recordkeeping very critical for HR & workforce analytics, there are also legal requirements that must be followed to avoid compliance issues. Good recordkeeping makes tracking easier for HR Professionals, Accountants and can be used for ROI and performance evaluations. Recordkeeping also assists in managing human resources by providing hard data on the effectiveness of policies and procedures.

The critical HR Compliance & Record keeping training will provide participants with a blueprint for compliance, to ensure that the risk profile of your organization is limited and contained by a thorough understanding of regulatory environment and requirements.



Conclusion

Every organization should have an annual Human Resources Audit. An HR audit is similar to an annual health check. It is a means by which an organization can measure where it currently stands and determine what it has to accomplish to improve its HR functions. An audit involves systematically reviewing all aspects of the human resources functions. It also ensures that government regulations and company policies are being adhered to and your organization is not at risk for fines and penalties.

A self-audit of employment practices can be an effective preventative and updating measure. The audit promotes the detection and resolution at an early stage of issues which may become much larger problems as time passes and a wider range of employees are affected.

An employment practices audit is a comprehensive program combining supervisory interviews, analysis of employment-related litigation, and evaluation of personnel actions. Additionally, a review of personnel policies and practices, and additional efforts to identify potential areas of legal vulnerability. In spotting weaknesses which could result in charges or lawsuits, it assists insurers in assessing the risk to be allocated through the employment practices liability coverage.

Knowing its areas of vulnerability, an organization can take corrective steps to decrease the likelihood employees will feel the need to turn to a labor organization, government agency or court to resolve their disputes. Identifying problem areas also keys the organization in to the need for specific training for supervisors and managers to understand how to comply with employment laws and regulations.

By regularly auditing your Human Resource functions you will mitigate your risk. If you have significant compliance concerns for your company, you may want to consider an audit structured as an attorney-client privileged investigation. By having an attorney conduct the audit, you can identify and correct problems and protect certain information that may otherwise be accessible to government investigators.

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HUMAN RESOURCES AUDIT CHECKLIST



checklist to audit your human resources processes

At the conclusion of the audit, HR leaders must engage in constant observation and continuous improvement of the organization's policies, procedures, and practices so that the organization never ceases to keep improving. This will ensure that the company achieves and retains its competitive advantage. One way to do this is to continuously monitor HR systems to ensure that they are up-to-date and to have follow-up mechanisms built into every one of them.

One approach is to designate someone on staff (or an outside consultant) to monitor legal developments to ensure that HR policies and practices are kept current. Likewise, organizations should keep track of the audit findings and changes made, turnover, complaints filed, hotline issues, and employee survey results to identify trends in the organization's employment-related issues. Identifying problematic issues, growth areas or declining problem spots can help in the decision of where to allocate time, money and preventive training resources in the future.

