



HR 20/20



HR Audits

**7 Easy Steps to Improve Your Bottom Line!
Conduct an HR Audit today!**

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INTRODUCTION

Workplace lawsuits are on the rise. In some cases **employment violations can land you in jail.** The average lawsuit settlement is \$165,000 before you pay lawyer fees; **if you suffer through a jury trial when faced with litigation, it could cost you \$1 Million or more.**

Employment laws are ever changing. Fines for non-compliance can add up quickly and deplete your hard earned profits. Oftentimes, employers are so busy with day-to-day operations that compliance issues and illegal practices go unnoticed. It is crucial that employers keep informed of changes in the law, as well as any changes in best practices, and other guidelines for HR Management. Conducting a Human Resources (HR) audit is a smart way to make sure your organization is legally compliant, as well as, to uncover illegal processes.

The HR audit is the process of examining intensely and objectively the organization's HR policies, procedures, documentation, systems, practices and strategies to protect the organization from litigation, to establish best practices, and to identify opportunities for improvement. An objective review of the employer's "current state" can help evaluate whether specific practice areas are adequate, legal, and effective.

In a nutshell, the HR Audit gives organizations the opportunity to assess what the organization is doing right, as well as how things might be done differently, more efficiently, and/or at a reduced cost. It also helps the company identify outsourcing opportunities and cost saving strategies.

The HR Audit can be time-consuming and should be handled by a certified HR professional to ensure laws, processes, systems, documentation, practices, etc. are evaluated appropriately.

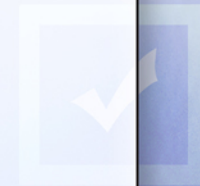
Before you begin your HR audit, it is vital to have your organization's mission, vision, and values in mind to align the audit to your company goals. You should gather as much information as possible, including:

- Organizational chart
- Mission, vision, and values
- Strategic plan and goals
- Budget information
- Employee handbook(s)
- Policies and procedures
- Collective Bargaining Agreement
- Job descriptions
- Training manuals
- Performance evaluations
- Forms, etc.

Once the information is gathered, you can then determine if the information aligns with actual practices, policies, and procedures. If deficiencies are identified, it is important to take steps to correct those issues.

The audit process consists of a succession of questions covering the primary components of the HR function. The following checklist can help you audit your HR department.

Disclaimer: The information in this E-book is merely guidelines and recommendations to help companies in day-to-day operations. It is best to consult with your legal or HR team before applying any new changes to your policies, practices, etc. Any story and/or scenario written in this book are only examples and not actual cases.



HR Audits

STEP 1: ORGANIZATION

To begin, we will look at the organization. At this point, it is a great idea to create a questionnaire to interview management staff regarding issues, successes, etc. Questions for management staff could include:

- What are the biggest issues that you face?
- What specifically would you like to see changed at the organization and why?
- How do you feel about the Human Resources Department at the organization?
- Are your employees' performance appropriate for their jobs? If not why?
- How do you deliver employee feedback and evaluations?

Below are questions about the organization for you to check off (checklist). For now, check off as appropriate; we will discuss the analysis of the checklist at the end of this E-book.

Organization

- Is there a mission and vision statement?
- Are the HR goals aligned with the organizational goals and strategies?
- How will the HR Department support the strategic goals and impact organizational performance?
- How many managers and supervisors does the company have?
- How many full-time employees? Part-time employees?
- How many hours per week define full-time? Part-time?
- Are employees aware of their status?
- How long can an employee be temporary?
- How many locations does the company have?
- EEO-1 compliance, if applicable, do you file annually?
- What are the company hours? Are shifts defined?
- How does HR communicate with management and employees?



STEP 2: HIRING

Next, is a very important step, because many non-compliance and litigation issues happen in the hiring process. We should look at the hiring process via the checklist below:

Hiring

- What procedures are used for hiring in your organization?
- What recruitment sources are used, i.e., advertisements, job boards, referrals, social media, etc.?
- Do job descriptions exist and are they up-to-date?
- Are the job descriptions ADA compliant?
- Are I-9 forms accurate and is the acceptable documentation reviewed annually?

- Is e-verify being used for new hires?
- Are I-9 forms and medical information kept separately from personnel files?
- Are job openings posted? Are job openings offered to current employees?
- Are current employees given appropriate consideration for promotion or lateral position changes? Who makes those decisions and are they properly documented?
- Who does the preliminary screening of candidates?
- Who selects candidates for interviews?
- Is training provided for those who conduct interviews?
- How are the recruitment, screening, and selection processes documented?
- Are applicants' backgrounds checked?
- Are references checked?
- How is reference checking documented?
- Do employment applications refrain from requesting protecting information?
- Does the application form ask if applicant needs accommodations (ADA)?
- Who has the final authority to hire?
- Who makes the offer of employment?
- Is there a standard offer letter?
- Are selection processes used with reference to the Uniform Guidelines?
- Is the hiring staff trained on how to not ask illegal interview questions?

- Are applicants asked to voluntarily identify their affirmative action information?
- Are turnover rates monitored?
- Are independent contractors accurately classified?
- Is the 20+ point test for independent contractors being used for classification?
- Have issues related to classification of employees been raised?
- Are exempt employees accurately classified?
- Are all new hires reported to the state and IRS timely?
- Do new employees complete W-4 forms?
- Are workplace policies in place, i.e., EEO, harassment, safety, attendance, etc.?
- Are policies communicated and enforced?
- Is there an employee handbook?
- Is the employee handbook aligned to the workplace and up-to-date?
- Are employees required to attend orientation?
- How long is the new hire "orientation" period?
- Are all employees trained on discrimination and harassment policies/issues?

STEP 3: COMPENSATION AND BENEFITS

Paying employees appropriately is important for all organizations. Next we will look at our compensations and benefits.

Compensation and Benefits

- Who negotiates compensation packages?
- Are compensation levels/plans monitored and reviewed annually?
- Are employees correctly designated as exempt or non-exempt per FLSA?
- Are independent contractors correctly identified?
- Is there a formal pay structure?
- Is performance tied to compensation?
- Is work time documented? How?

- Is paid time off (vacation, holidays, etc.) structures developed?
- Are non-exempt employees compensated at least one and one-half times their hourly wage for any hours worked beyond 40 (including bonuses)?
- Is the compensation plan communicated to all employees?
- Are benefit plans reviewed annually?
- Are employees informed/oriented regarding their benefits?
- Are Summary Plan Descriptions provided to plan participants?
- Are general COBRA notices provided to plan participants?
- Are employees allowed the appropriate leave time under the FMLA?
- Are plan documents in compliance with ERISA?
- Are supervisors and managers trained to report employee absences of more than three days to management for FMLA purposes?
- Are total compensation letters provided?
- Are open enrollment meetings held?
- Are minors prohibited from working more than their hours allowed by the Fair Labor Standards Act?
- Are final paychecks provided on time?
- Are the compensation structures equally enforced?
- Are the appropriate payroll withholdings performed and forwarded?
- Is a payroll service used, and if so, which service?

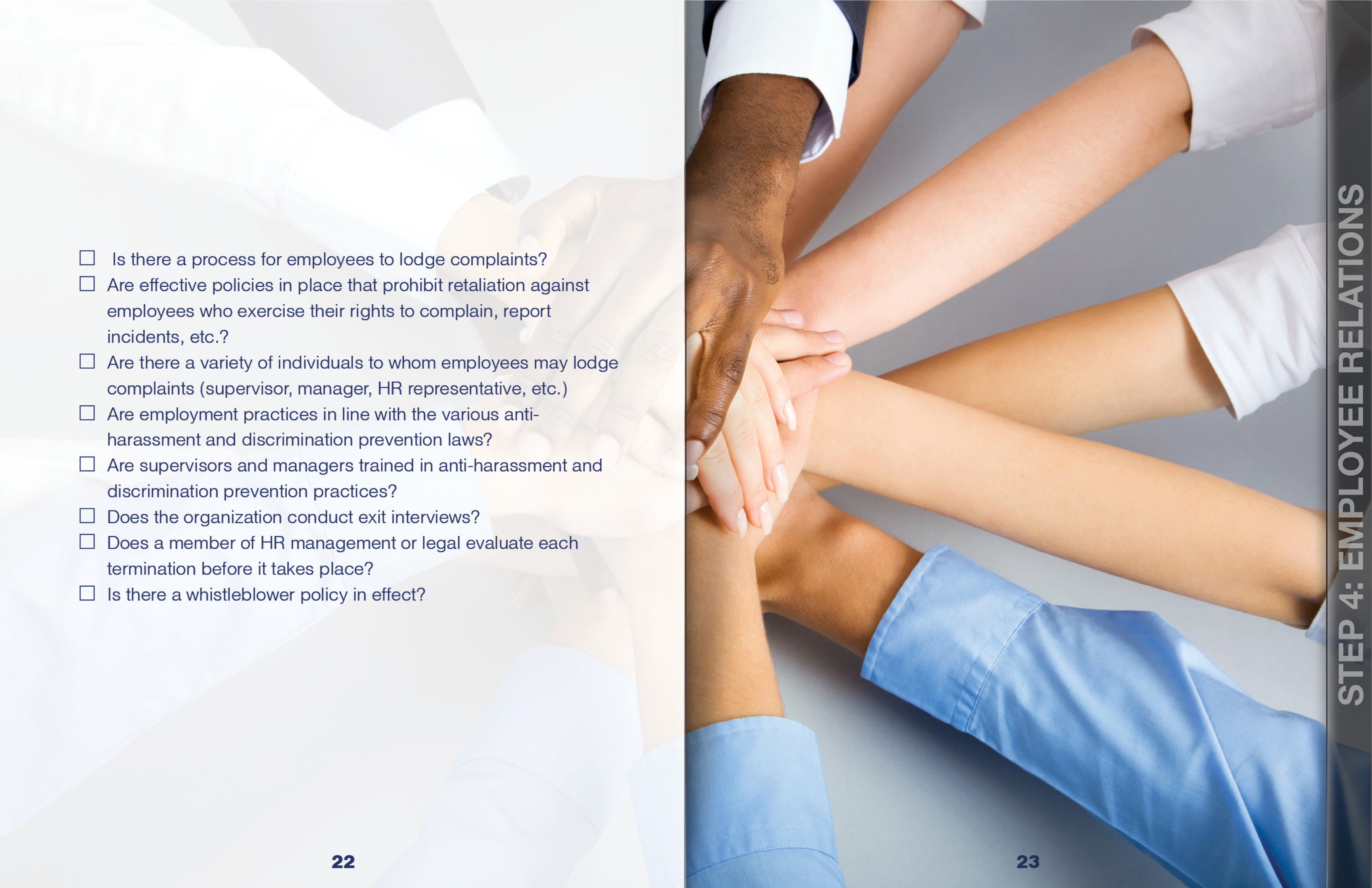


STEP 4: EMPLOYEE RELATIONS

The next section we cover is employee relations. Please note if you are covered under a collective bargaining agreement (CBA), follow the CBA as appropriate.

Employee Relations

- Is there a system for performance evaluations? If so, are the managers aware of the system?
- Does the system check for effectiveness of the evaluation?
- Is quality and quantity of work evaluated?
- Is there a Record of Disciplinary Action form?
- Are disciplinary actions for violating workplace policies flexible?
- Does documentation exist for each incident of discipline, counseling, terminations?

- 
- Is there a process for employees to lodge complaints?
 - Are effective policies in place that prohibit retaliation against employees who exercise their rights to complain, report incidents, etc.?
 - Are there a variety of individuals to whom employees may lodge complaints (supervisor, manager, HR representative, etc.)
 - Are employment practices in line with the various anti-harassment and discrimination prevention laws?
 - Are supervisors and managers trained in anti-harassment and discrimination prevention practices?
 - Does the organization conduct exit interviews?
 - Does a member of HR management or legal evaluate each termination before it takes place?
 - Is there a whistleblower policy in effect?

STEP 5: SAFETY, SECURITY, AND WORKER'S COMPENSATION

The Occupational Safety and Health Administration (OSHA) regulations require employees to work in a safe workplace. This section is extremely important, as OSHA fines can be massive.

Safety, Security, and Worker's Compensation

- Is there a process for reporting injuries and unsafe conditions?
- Are safety hazards reported to the appropriate personnel?
- Has a safety committee been established?
- Do you have an Emergency Response Plan?



- Are workplace accidents, near-misses, injuries, and illnesses reported and investigated?
- Is bright, effective lighting installed indoors and outdoors?
- Is there a reliable response system in place in the event an alarm is triggered?
- Are employees encouraged to promptly report incidents, and suggest ways to reduce or eliminate risks?
- Are structures readily accessible to disabled employees?
- Are minors prohibited from performing hazardous work?
- Are MSDS sheets available for every chemical in the building (including cleaning supplies)?
- Is the proper OSHA and workers compensation information posted and distributed to new hires?
- Are ALL injuries/incidents investigated?
- Is follow-up remediation performed where appropriate?
- Are return-to-work programs checked for effectiveness?
- Are insurance premiums and competitive quotes reviewed on a periodic basis?
- Is the workplace environment maintained with safety in mind?
- Are state (new and existing) requirements monitored?



STEP 6: RECORDKEEPING AND OTHER DOCUMENTATION

In this area, it is important to follow record retention guidelines to determine how long to retain records. You may find that it is time to destroy some of your records as keeping records you don't need can be as problematic as not retaining the records long enough.

Recordkeeping and Other Documentation

- Are personnel files current?
- What documents are held in personnel files?
- How long are files held and where are they stored after employees leave?
- Are items with medical protected information kept in a separate, locked location?

- Is there training of managers and employees about personnel files?
- Is there a process for employees to review their files, if appropriate for your state?
- Are all federal and state labor posters current and displayed in a conspicuous place?
- Are documents regarding employees kept for their required duration (application, personnel files, payroll, I-9 forms, etc.)?
- How are Paid Time Off, FMLA, and Worker's Compensation documented?



STEP 7: ANALYSIS

When analyzing your results, it is best to compare your results to legal requirements, best practices and legal practices. As you carefully review your results and data, common themes will appear in specific HR areas. For example you may find the following:

- Inconsistent application of policies
- Policies and processes that are inappropriate
- Non-compliance of employment laws
- Missing documentation
- Misclassification of exempt employees and/or independent contractors
- High turnover
- Increase in absenteeism
- Penalties/disciplines inappropriate for violations
- Need for employee and/or management training

- Employee handbook is out of date
- Compensation plan is not in line with market
- HR system is not user friendly

After analyzing your results and data, and determining best practices, it is best to categorize issues by level of risk; i.e. high, medium, and low. Tackle each issue starting with the high-risk level category and continue on to medium risk, and low risk.

See sample diagram below:

Risk Levels

HIGH	MEDIUM	LOW
Misclassification	Forms	Meetings
Absenteeism	Testing	Suggestion boxes
HRIS System	Evaluations	Emails

During your analysis, always consider opportunities for outsourcing services to reduce organizational costs.

After completing your analysis, estimate your cost savings. You will be amazed.

CONCLUSION

In closing, remember, workplace litigation is on the rise. Employment lawsuits are expensive, often times costing over \$1 Million. In order to protect your company from non-compliance fees and expensive litigation, it is crucial to audit your HR policies, practices, systems, documentation, strategies, etc.; as well as to determine best practices, HR efficiencies/effectiveness, and opportunities for outsourcing services to reduce costs.

Audit your HR department and...

Drastically Improve Your Bottom Line!

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About the Author

Vanessa G. Nelson, SPHR, CLRL is founder and President of award-winning Expert Human Resources, which she founded in 2009 to help companies maintain employment law compliance, avoid workplace litigation, maximize human capital, reduce costs, and increase revenue.

Vanessa is a results-oriented Human Resources expert with a unique background in business management, spanning over 29 years at two large corporations in Michigan. Her expertise includes: Classification/Compensation Studies, HR audits, executive recruitment, management training, management consulting, human resources consulting, labor relations, employment laws, employee relations, workplace investigations, and policies and procedures.

Vanessa's clients include: McDonalds, Mass Transportation Authority, Regional Cardiology Associates, Suski Automotive, Pain Management Center of Flint, Genesee District Library, Muskegon Area District Library, Bedford Public Schools, Old Newsboys of Flint, Birch Run Chamber of Commerce, and many more. She has successfully helped companies save hundreds of thousands of dollars.

Ms. Nelson received her Master of Science in Administration/Human Resources Management from Central Michigan University and a Bachelor in Business Management from Northwood University. She holds the Certified Senior Professional in Human Resources (SPHR) credential from Human Resources Certification Institute, Certified Labor Relations Leader (CLRL) from Michigan State University, and the Senior Certified Professional (SHRM-SCP) from the Society for Human Resource Management.



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Please contact:



Expert Human Resources, LLC
info@experthumanresources.com
(877) 356-6175

www.experthumanresources.com