

THE WHYS AND WISDOM OF A HUMAN RESOURCES AUDIT

The word “audit” isn’t typically one that is associated with joy. When most people hear “audit” they shudder thinking of painful IRS audits and envision high costs and little reward to their organization.

Business-related audits though, such as those reviewing safety practices, quality control measures, and human resources procedures, can be beneficial to a business, ultimately saving time and money.

There are two ways to discover risks and problems in human resource practices: look for them or wait for things to happen. Even the big guys can blow this one. In May 2019, Walmart was ordered to pay over \$100 million in penalties and damages for failing to include basic information on pay stubs for thousands of its California employees. Ouch.

Human resource law is constantly changing, and policies and practices that were appropriate a year ago might be out of date today. Best practices change with both time and the circumstances of the employer, while HR and organizational strategies can and must evolve to ensure the best long-term direction.

A thorough human resources audit is designed to evaluate legal and regulatory compliance, best practices, and strategies to address problems and opportunities, and should include the three elements listed to the right.

Organizations that are willing to open themselves to a third party HR auditor and make needed improvements will avoid much of the risk and the high cost of non-compliance and poor planning. Those open to greater scrutiny in their overall utilization of people will better position themselves to compete, live out their mission, and succeed by more effectively maximizing their greatest resource.

1 LEGAL COMPLIANCE

The scope of an HR legal compliance audit ranges from conformity with laws and regulations, such as adherence to minimum wage standards, to complex liability and litigation risk avoidance. Basic compliance with laws and regulations is often overlooked due to its complexity, changes in the law, or just the sheer number that an employer must consider. If neglected, though, this can result in significant legal and civil exposure. Fortunately, such matters can be readily uncovered during an audit. Common areas of noncompliance include wage and hour violations, improper recordkeeping, and misclassification of employees. And as Walmart learned, things as simple as omissions on paystubs.

Legal compliance also involves the more complex issues surrounding the subjective nature of human resource law. These include laws concerning discrimination, harassment, wrongful termination, or privacy issues. This may take more detailed review, but the risk can be enormous and should not be overlooked.

2 BEST PRACTICES

Human resource best practices are a set of principles that lead to optimal business performance. While “best practices” are considered universal regardless of an organization’s size, industry, etc., the principle of best fit is also critical—that is the alignment of HR goals with the overall goals of an organization and its business strategy.

Compliance oriented best practices can be defined as activities and policies that organizations develop to mitigate risk under the broader HR legal framework. These include:

- **Hiring practices:** Employ proven techniques to assess technical, performance, and cultural fit of candidates. The tendency can be to focus mostly on technical experience and related education, but the right fit requires a deeper look.
- **Training and development:** Develop and provide ongoing training and development with a focus on skill-specific programs. This improves your workforce and is attractive to many employees—especially the ones you most likely to want to keep.
- **Compensation:** The right compensation and benefits package rewards results and shows your team they are appreciated. Be reasonably transparent about your intent; a 2017 survey by Pay Scale found that 77% of the respondents who thought they were underpaid were actually at market—and another 12% were above the market rate.
- **Communication and transparency:** How open are you in sharing the plans, successes, and failures of your organization? There are limits, of course, but an open environment for feedback and communication makes employees feel respected and valued. And if you don’t communicate, the rumor mill will.
- **Progressive discipline:** A properly designed progressive discipline program addresses performance and behavior that falls short of communicated standards. Its purpose is to help the employee understand the issues and work toward improvement. Properly done, the process helps develop a high performing team, a win for everyone.

3 HR STRATEGY

The final piece of an effective HR audit is the evaluation of human resource activities and practices that create a high performing organization. These are people strategies and practices to make the most of an organization’s greatest resource, with a focus on performance planning, strategy implementation, succession planning, total compensation and rewards planning, team and leadership development, and other critical factors.

An HR strategy assessment takes time and involves analysis of the organization and the environment it operates in. Strategies implemented should result in more efficient use and allocation of time, money, and people and result in targeted changes in organization, culture, and operations. Once in place it should be reviewed and revised annually. Things change, and as we’re seeing now, sometimes rapidly.