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STRATEGIC HR

Start Your HR Audit With This Checklist

Whether an HR audit is a voluntary undertaking to learn more about practices and procedures, an internal request from the CEO to streamline operations, or a response to a lawsuit or government audit, preparation is key.

Much can be learned from HR audits, as more HR professionals are discovering—especially those who are identifying and researching organizational metrics. Benchmarking is one of the hottest topics for HR professionals, so it is no surprise to see an increased interest in processes that can help to collect data and even identify future metrics.

An outline for preparing for an HR audit was suggested in a recent audio conference by Ronald Adler, president and CEO of Laurdan Associates Inc. (radler@laurdan.com; 301-299-4117). Adler is a leading consultant, author, and speaker in the area of HR audits and is the co-developer of the Employment Labor Law Audit (ELLA®) software.

Now that most organizations consider employees to be among their most important assets—and one of the most significant expenses—audits are becoming a greater part of managing those assets. This is another reason, Adler explains, for greater interest among employers in performing regular HR audits.

MANAGING RISK

Identifying and controlling various kinds of risks have been traditional drivers for the HR audit. From such audits, many best practices have sprung.

The risks that organizations explore when they conduct HR audits tend to relate to financials, the organization's reputation, the employment brand, and the ability to attract and retain top talent, Adler explained.

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Special Insert:
401(k) Buyer's
Guide

Fear of lawsuits from current or former employees is a major risk and certainly a driver of risk management procedures such as the HR audit. Adler noted that Equal Employment Opportunity Commission data from 2006 indicate that 75,768 charges were filed in that year for employment discrimination. This represents a slight increase over the prior year (see the table below), and the numbers scare employers. Especially significant, Adler pointed out, is that the retaliation claims for all laws account for almost a third of the claims (29.8%).

These numbers are sobering and point to the increased importance of managing employment practice liability risk. Adler explained that such risk management includes audits to systematically assess risk so that your organization can try to develop ways to remove or eliminate risk. If that is not possible, organizations should try to mitigate risk or control loss. And if that doesn't

work, then arrange to finance risk, including the use of insurance.

MORE AUDIT DRIVERS

Audits are excellent ways to learn about risk. They can educate HR and the entire organization on how to put in place or enhance effective human capital management practices.

Other reasons for the growing interest in HR audits include pressures to increase monitoring, such as:

- **The Sarbanes-Oxley Act**, which requires effective internal controls, including HR.

- **The Securities and Exchange Commission**, which requires management to "exercise reasonable management oversight" if the company is public. This includes evaluating and assessing what might have a financial impact on the organization.

- **U.S. Federal Sentencing Guidelines**, which require reasonable steps to be taken to "monitor and audit." Being able to show your

organization has done well will help if a case ever goes to court against you, Adler noted.

- **The Office of Federal Contract Compliance Programs (OFCCP)**, which encourages self-assessments as a best practice and issued voluntary guidelines last June for self-evaluation of compensation practices for federal contractors only.

- **The EEOC**, which encourages employers to conduct comprehensive HR audits as a tool to identify and eradicate systematic discrimination.

Beyond government requirements or suggested practices, other reasons to conduct an HR audit include:

- To align HR management and employment practices with the organization's business goals and objectives.

- To understand and assess the outcomes of employment processes, policies, practices, and procedures. This relates to the risk management driver discussed above; however,

Employment Discrimination Charges, 2001-2006

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Total charges	80,840	84,442	81,293	79,432	75,428	75,768
Race	28,912	29,910	28,526	27,696	26,740	27,238
	35.8%	35.4%	35.1%	34.9%	35.5%	35.9%
Sex	25,140	25,536	24,362	24,249	23,094	23,247
	31.1%	30.2%	30.0%	30.5%	30.6%	30.7%
National origin	8,025	9,046	8,450	8,361	8,035	8,327
	9.9%	10.7%	10.4%	10.5%	10.7%	11.0%
Religion	2,127	2,572	2,532	2,466	2,340	2,541
	2.6%	3.0%	3.1%	3.1%	3.1%	3.4%
Retaliation - all statutes	22,257	22,768	22,690	22,740	22,278	22,555
	27.5%	27.0%	27.9%	28.6%	29.5%	29.8%
Retaliation - Title VII only	20,407	20,814	20,615	20,240	19,429	19,560
	25.2%	24.6%	25.4%	25.5%	25.8%	25.8%
Age	17,405	19,921	19,124	17,837	16,585	16,548
	21.5%	23.6%	23.5%	22.5%	22.0%	21.8%
Disability	16,470	15,964	15,377	15,376	14,893	15,575
	20.4%	18.9%	18.9%	19.4%	19.7%	20.6%
Equal Pay Act	1,251	1,256	1,167	1,011	970	861
	1.5%	1.5%	1.4%	1.3%	1.3%	1.1%

(Source: EEOC, www.eeoc.gov)

the focus now is on the results of changes that have been made in response to potential risks, rather than identifying the risks themselves, Adler said.

- To gather information about human capital management (HCM).

- To calculate and estimate human capital values and return on investment.

- To enhance the use of metrics, both as subjective and qualitative evaluators.

- As part of due diligence:

- To uncover hidden liabilities and assets.

- To identify activities that will increase the value of human capital.

- To identify where liabilities and vulnerability can be avoided or minimized.

- To identify and respond to HR's customers, including employees, applicants, retirees, unions, senior management, the board of directors, managers, supervisors, temporary workers, contractors, and shareholders.

- To ensure compliance with:

- Federal, state, and local employment laws. You have to consider all three, Adler reminds HR professionals.

- Regulations and guidelines from the EEOC, OFCCP, and Department of Labor.

- Ethical and professional standards.

- The organization's business objectives, mission, culture, values, and policies.

- To assess key internal controls. In other words, the audit can ask, "How do we know things are being implemented as we think they are?"

- For risk management.

WHAT TO AUDIT

HR audits can be broad or narrow. Some common areas being audited now, according to Adler, include:

- HR strategies and objectives

and how both align with business practices.

- Human capital management, including talent management and succession planning.

- Culture, values, and mission.

- Alignment with your organization's objectives, budgets, culture, values, and mission.

- Impact on organization activities, competitiveness, revenues, and profitability.

- Organization structure. This is not about a mere chart. Adler notes that an audit can explore how structure affects policies and practices along with their enforcement.

- Facilities inspection, which can help your organization comply with requirements for discrimination-related accommodations to its physical structures and Web site.

- Employment posters and notices for employees and applicants. These must be current and easily visible.

- Employment (brand) and

image.

- Employee engagement and satisfaction.

- Employee files. A physical inspection can ensure that separate files are in place for Form I-9 and health. Such audits can also look at security issues, such as privacy protections and safe storage.

- Employment policies, practices, and procedures. This includes handbooks, personnel action forms, and the "virtual" policies that are not written down, but are "what is being done on the shop floor." The latter should be scrutinized both for any potential problems and to discover good practices that you may want to codify for the organization.

- Employee staffing and competencies.

- Compensation and benefits, both internally and on a competitive basis.

- Contractual relationships including those with unions, indi-

Should HR Do Its Own Audits?

When an organizational audit looks at HR policies and practices, it is natural to expect that HR will be involved and may even lead the audit. While audits create additional work, you will learn a lot, as well as have the opportunity to interact with other audit team members.

Audits can enhance HR's growing strategic function and help to enhance value. The greatest benefit from audits in these areas can come about when HR is involved in the audit process. You will also be a key player in developing the after-audit report recommendations.

In most cases, you will probably be working closely with your organization's in-house attorney or with outside counsel, or with both. This is a learning opportunity for both HR and the lawyers. The growing complexities of the compliance landscape require a lawyer's knowledge of the scene and the practices that are most likely to get an organization into trouble—the ones you want to make sure you eliminate from your company at once.

HR, in turn, can educate the attorneys about the day-to-day processes of the organization so the lawyers can better understand the environment in which the laws and regulations are being applied.

Participating in and understanding the audit process will help you to operate your department more efficiently and with greater knowledge. Working closely with the lawyers will enhance your compliance skills and knowledge. These are all helpful goals as part of the greater aim to build value for the HR department and its services.

vidual contracts, subcontractors, vendors, outsourcing, and other third parties.

- Process controls, which ask, "Are the things we want to happen actually happening? If not, what is preventing those things from happening?"

- Outcomes. "Any audit that doesn't look at outcomes isn't being done correctly," Adler stated.

AUDIT PLANNING

This may be the most important step, after selecting which area or areas you will audit. Adler recommended these best practices to help focus your audit and to keep it on track for maximum efficiency:

- Have a purpose/objective.
- Know the scope of the issues/areas and the components of the organization that will be audited.
- Draft an audit team. Identify participants and leaders, as well as how the team will work, who it reports to, and how. (For more on HR's role in conducting audits, see the sidebar, "Should HR Do Its Own Audits?")
- Stockpile tools. These may be internal checklists or other materials, checklists from corporate counsel, or software.
- Familiarize yourself with costs and resources. Make a budget at the start, because HR audits can be expensive, Adler said. "Know what

resource commitment there is."

- Get top-level support. Leaders must be committed to the audit and to correcting what is revealed—or the audit will fail.

- Consider the legalities. Assume that anything you find in an audit also can be discovered (or turned over to the other side) in a lawsuit or investigation. There are exceptions, but leave them to your organization's attorneys.

- Work with your lawyers. Review audit plans and activities with counsel. An HR audit should, at the very least, be done with corporate counsel having been consulted and directing it, especially if there is a case or claim pending, Adler noted.

- Determine key organizational metrics. What is so important that your organization must measure it?

HR Audit Resources

Society for Human Resource Management (SHRM; www.shrm.org). SHRM's HR Audit Toolkit includes information on planning the audit, what to explore, checklists for various types of audits, and tools for performing audits.

Employment Labor Law Audit (ELLA®; www.laurdan.com/ELLA.asp): HR audit software

Government Resources:

Department of Labor (www.dol.gov)

Equal Employment Opportunity Commission (www.eeoc.gov):

EEOC Memorandum on the Systematic Discrimination Initiative (www.eeoc.gov/abouteeoc/task_reports/systemic.html)

"EEOC Vice Chair Tells U.S. Employers to Conduct Employment Law Audits to Prepare for EEOC's Aggressive New Approach to Fighting Systemic Discrimination," Hogan & Hartson Labor and Employment Update, Dec. 18, 2006 (www.hhlaw.com/newsstand/pubDetail.aspx?publication=2760)

Federal Sentencing Guidelines (www.ussc.gov)

Immigration and Customs Enforcement, Department of Homeland Security (www.ice.gov)

Occupational Safety and Health Administration (www.osha.gov)

Office of Federal Contract Compliance Programs (www.dol.gov/ofccp/index.htm):

- Guidelines for Self-Evaluation of Compensation Practices (www.dol.gov/esa/regs/fedreg/notices/2006005457.htm)

Securities & Exchange Commission (www.sec.gov):

- Public Company Accounting Oversight Board (www.pcaob.org)

- Sarbanes-Oxley Act of 2002 (www.pcaob.org/About_the_PCAOB/Sarbanes_Oxley_Act_of_2002.pdf)

CONDUCT THE AUDIT

Adler recommends the following steps for an efficient HR audit:

- Collect metrics and measurements of outcomes.

- Develop descriptions. Identify the factors that you will be assessing. For instance, in a compliance audit, you want to determine the laws and regulations and their applicability to the company's risk exposure. Other factors may include the size of the company, your industry, whether your organization is public or private, and so forth.

- Look at specific management/employment issue areas/processes, such as:

- Strategic management.

- Organizational development, including mergers and structural change.

- Recruitment and hiring processes.

- Background/reference checks and how the organization will respond to requests for them. Fear of defamation claims has attracted attention to this area. Also consider your own processes when giving

information on former employees.

— Management of immigration issues

— Employee handbook/policy development. Is it up-to-date? Maintained on your Web site? Communication is important here for your employment brand, Adler said.

— Workplace discrimination, sexual harassment, disability, affirmative action, and diversity issues.

— Substance abuse and a drug-free workplace.

— Positive employee relations including a workplace conducive to productivity.

— Job performance management.

— Talent management.

— Retention and turnover.

— Conflict resolution.

— Termination process. This often becomes the “straw that broke the camel’s back” in liability situations, Adler said, so having a process to manage performance, discipline, and how employees are treated is important.

— Downsizing/layoffs and plant closings.

— Unemployment insurance management.

— Workplace safety and worker compensation.

— Compensation and employee benefits.

— Wage and hour compliance.

— Family and Medical Leave Act and other leaves.

— Governance and ethics, especially in public companies.

— Record retention/management.

The last step after collecting data is to prepare a report, usually with recommendations, to give to management. Suggest actions to help correct problems, report on variances from budgeted or expected results, and suggest new metrics.

FOR MORE INFORMATION

To purchase a CD of the BNA audio conference, “Conducting HR Audits

to Reduce Employment Practices Liability Risks” (4/12/07), contact BNA at 800-372-1033 or at hrcenter.bna.com

The accompanying list of re-

sources contains additional suggestions for HR audits, and a new book about HR audit best practices will be available later this year from IOMA. □

HRfocus CALENDAR

ASTD 2007 International Conference & Exposition, Atlanta, June 3-6. Contact: ASTD, 703-683-8100; fax: 703-683-8103; www.astd.org

Succession Planning and Leadership Development, Los Angeles, June 18-19. Contact: Human Resource Planning Society, 212-490-6387; www.hrps.org

Employee Engagement & Retention Conference, New York City, June 21-22. Contact: The Conference Board, 212-759-0900; fax: 212-980-7014; www.conference-board.org

SHRM Annual Conference & Exposition, Las Vegas, June 24-27. Contact: Society for Human Resource Management, 800-283-SHRM; www.shrm.org

HR and the Change Leadership Imperative, Executive HR Network 2007 Summit, Boston, July 18. Contact: Society for Human Resource Management, shrmeducation@shrm.org; www.shrm.org/exechr

The Global Institute for Leadership Development, San Diego, Sept. 16-20. Contact: Linkage Inc., www.linkageinc.com

HR and the Global Leadership Challenge, Executive HR Network 2007 Summit, Washington, D.C., Sept. 20. Contact:

Society for Human Resource Management, shrmeducation@shrm.org; www.shrm.org/exechr

PSCA's 60th National Conference and Exhibition, Rancho Mirage, Calif., Sept. 25-27. Contact: Profit Sharing/401(k) Council of America, 312-419-1863; psca@psca.org; www.psca.org

20th Annual Benefits Management Forum & Expo, Dallas, Sept. 25-27. Contact: Employee Benefit News, 800-966-3976; www.sourcemediaconferences.com

HR Technology Conference and Exposition, Chicago, Oct. 10-12. Contact: Human Resource Executive, www.hrtechnologyconference.com

Strategic HR Conference, Tampa, Fla., Oct. 10-12. Contact: Society for Human Resource Management, 800-283-SHRM; www.shrm.org; shrm@shrm.org

Workplace Diversity Conference & Exposition, Philadelphia, Oct. 17-19. Contact: Society for Human Resource Management, 800-283-SHRM; www.shrm.org; shrm@shrm.org

Employers of Excellence National Conference 2007, Las Vegas, Oct. 22-24. Contact: HR.com, www.hr.com

Future issues:

- Talent Management and the Bottom Line: How to Frame the Issue for Your CEO
- Exclusive Reports From SHRM's Annual Conference
- Cost-Control Data From Your Peers: How to Save Even More on HR Operations
- Leading Challenges in International HR: The Top Issues Facing Global Companies
- What HR and HRIS Can Learn From Each Other—and How to Enhance Communications