

Human Resources Audits: Uncovering Opportunities for Cost Reduction, Profit Improvement and Liability Reduction

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Human resources audits (HR audits, human resources compliance audits, HR compliance audits are some of the various names by which this valuable service is known) are infrequently used tools in most businesses today. Only a small fraction of businesses ever look critically at the processes and results of their human resources systems.

These businesses assume that their HR department is doing “everything” that is needed to keep them in compliance with applicable law, reduce unemployment, legal, recruiting, turnover, benefit, administration and related costs to a minimum, improve the return on investment of employee relations, benefit and other programs, etc. This is often not the case. The human resources field has become progressively and profoundly complex over time and it is almost impossible, because of the frenetic pace of day-to-day life, to keep up on everything.

Often significant areas of liability exposure, cost and opportunity are uncovered through the HR audit process. The HR audit helps us on all the three levels of the old saying –

- We know what we know.
A HR audit can reinforce good practice and help further develop the essential areas in which we already have knowledge.
- We know what we don't know.
A HR audit will help us focus on what we need to know to generate even better human resources system results.
- We do not know what we do not know.

A human resources audit helps us correct misunderstandings, oversights, mistakes and missed opportunities.

Pertinent Facts

- Personnel costs are one of the largest expenditures of most companies. Too many or not enough qualified and motivated employees, benefits and compensation programs that are too rich or not competitive, unemployment and workers' compensation costs that are out of control can unnecessarily hurt your firm's profitability, operations, competitiveness, customer service and long-term potential.
- Most businesses could increase the return on investment generated by their human assets if their "people" management and support processes and philosophies were better developed, executed and aligned. Many potential opportunities for incremental net profit go unrealized because employers do not have optimal human resources systems in place.
- Compliance with applicable legal requirements is very important. There are many moral and financial implications of failing to ensure that your business complies with the labor laws and regulations which govern it. The papers are full of multi-million dollar jury awards from companies with "first rate" HR departments.
- Good human resources systems do not have to be complicated. In fact, they should not be. These systems must be used by real people who have numerous other duties. Simplicity and effectiveness run hand in hand. Audits uncover opportunities to streamline, reduce and improve HR processes.

Human Resources Audit Structure

A good HR audit will sample all of the major HR systems in a business enterprise. A very partial listing of items to be looked at during the audit would include:

- recruiting (applicant pool generation, employment advertising, employee referral programs and other methods, applicant screening, testing and employment interviewing techniques and processes, etc.),

- staffing,
- employee orientation programs,
- employee and supervisory training (including sexual harassment training, anti-harassment training, basics of HR law training, training on employee coaching, employee motivation, employee discipline and a myriad of other topics),
- Benefit administration (cost, competitiveness, completeness, service provided, administration, etc.),
- workforce communication and employee relations (employee opinion surveys, focus groups, employee newsletters, meeting, events, etc.),
- performance management (job description, performance appraisal, employee coaching, counseling, discipline and termination, promotion, career ladders and planning, succession planning, etc.),
- compensation system (base salary, sales incentives, productivity incentives, executive bonus programs, team based incentives, exempt and non-exempt status determination, overtime computation, etc.),
- teambuilding system,
- and many more are reviewed during the audit.

Selecting an HR Audit Provider

The HR audit should be an objective process. Those with vested interests, political or interpersonal relationships within an organization start off at a significant disadvantage. It is often best to select a third party auditing firm who specializes in these audits.

Look for auditing firms that are practically oriented. This is not an academic exercise. You want help, not pages and pages of high sounding phrases.

You need someone who has “been there” – someone with extensive real life human resources background and experience. Human resources experience in and by itself does not qualify – you are looking for someone who truly understands the pressure of working inside an organization on a day-to-day basis. Find out about the prospective auditor’s work experience, consulting experience, certifications and approach.

Look for someone who will tell you the unvarnished truth (and only that), but whose approach is “about the work,” not about their ego. This is an audit, if something needs to be fixed, you want to know it. Many auditors think of themselves as superior and this makes the audit less well received both during and after the process. You are looking for a **service** provider who will tell you both the things that are working well and those that need attention.

Finally, make sure your auditor is not receiving payments for referrals he or she may make to you to rectify shortcomings found. This is a common and legal practice in the consulting industry but it presents too many opportunities for at least the appearance of impropriety. You certainly don't want to use a vendor simply because they were willing to pay for your business. Also remember that there are no free lunches in economics. You end up paying for the referral monies paid to your auditor one way or the other.

The Outcomes of the HR Audit

You should expect a detailed audit document citing the findings of the process. These documents typically run 10 to 60 plus pages in length depending upon the amount of findings, geographic scope, size of the company and other factors.

The audit report should specify the top ten things, in priority order, that you should do to help avoid liability, reduce cost and produce additional profit. Auditors have typically seen a lot of competing businesses and bring with them a wealth of knowledge that can benefit your organization.

You should also expect a detailed exit conference so that you and other members of your management team can be fully apprised of the nuances of the findings of the audit report.

A good HR audit will help your business perform better, save you money, increase profit and let you know what you should be working on. The value of a properly done HR audit is often hundreds of times its initial cost.

Richard Galbreath, SPHR, is president of Performance Growth Partners Inc., a full service organizational improvement firm specializing in HR audits, corporate outplacement services, customer service assessments, customer service training, supervisory training, employee

surveys, employee handbooks, teambuilding programs and team training, on-call and project based HR consulting services, outsourced HR services, employee retention programs, performance improvement programs, executive coaching, manufacturing process and operations improvement consulting, training and programs, safety assessments, safety training, strategic planning, employee retention program, performance improvement programs, interim executive placement, conference speaking, keynote addresses, business turnaround consulting, healthcare consulting and a wide range of other services. Contact Rick toll-free at (877) 739-4747 or e-mail him at rick@performtogrow.com.

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