McCLOSKEY PARTNERS, LLC
Human Resources & Recruiting
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HUMAN RESOURCE AUDIT PROPOSAL

What exactly is an HR Audit?

It is a matter of taking the time out of busy schedules to take an intensely objective look at the company's HR policies and practices. The objective review of a company's current state can help evaluate whether or not specific practice areas are adequate, legal and/or effective. In conducting an audit the exposure to risk and litigation due to the shifting climate of State and Federal labor laws is examined. The results obtained from this focused review can provide decision makers with the information necessary to determine which policies or practices require revision and/or improvement.

Most Common Problem Areas

Most lawsuits can be traced to four distinct stages of the employment relationship:

1. Hiring (e.g., classifying someone as a contractor, exempt or non-exempt that should be an employee, or in a different FLSA classification; job descriptions; application forms/new hire forms; employment contracts; benefits offered and references)

2. Employee Evaluation (e.g., performance appraisals, job transfers and promotions)

3. Employee Discipline (e.g., policies and procedures, rule infractions, warnings, evidence, poor performance, inadequate/vague policies in employee handbook)

4. Termination (e.g., comparison with other similar situations, proper warnings, adherence to the complaint procedures, inadequate or non-existent employee handbooks) and State mandated laws (e.g., final paycheck at time of termination)

Aside from these stages of the employment relationship which are most likely to create conflict, there are additional areas whereby companies become the most vulnerable to making a mistake. These areas include:

• **FLSA misclassifications of salaried/exempt and hourly/non-exempt jobs**—Many companies have job positions that have been misclassified as exempt from overtime requirements. Due to the complexity of wage and hour laws and regulations it is very easy to characterize a job as exempt that truly should be non-exempt, thereby exposing the company to liability for past overtime.

• **Inadequate personnel files**—A review of personnel files often reveals inadequate documentation. For example, disciplinary warnings are frequently informal, vague and/or inconsistent. Personnel evaluations are indefinite, inaccurate or outdated. Medical information is often found in personnel files, despite laws requiring that such data be kept separate. I-9 forms are often found in personnel files. Accurate and detailed records are essential for employers to defend any type of claim brought by an employee, particularly unemployment compensation or wrongful discharge claims.

• **Prohibited absentee policies**—Controlling excessive absenteeism is a major concern for most employers. However, the complexity of family and medical leave laws, with sometimes conflicting State and Federal protections, has made many formerly acceptable absentee control policies unacceptable. Absences impact worker's compensation, family and medical leave, disability and pregnancy laws. Companies often have policies that either do not comply with relevant laws and regulations or grant employees more protections than the laws require.

• **Inaccurate time records**—If an issue was to arise about whether or not an employee had worked more time than reflected on the time card, the Department of Labor would likely discount the time card and give credence to the employee's account of the hours actually worked. To avoid this from happening, employers must have time and attendance policies in place so it is clear how employees are compensated and how time is tracked for non-exempt employees.

• **Insufficient documentation**—Reviews of employer hiring practices often uncover inadequate documentation, such as missing or incomplete I-9 Forms and supporting ID. Employers can be fined between $100 and $1,000 for **each** failure to accurately complete an I-9 Form. Fines for these violations can easily add up, with reported cases of repayment totaling over $100,000.

Auditing these areas will allow the company to identify weaknesses or vulnerabilities in its systems and help identify issues that need to be updated—either to comply with new laws and regulations or simply to be more comprehensive. Being proactive now will save you from having to be reactive at a later time.

An HR Audit can pay for itself many times over by uncovering changes in HR practices that will improve productivity, performance and reduce the risk of lawsuits by ensuring labor law compliance.

PHASES OF HUMAN RESOURCE AUDIT

***Phase 1~Interview*:** We will review all human resource policies, procedures, systems and forms. We will work with key employees that are designated with human resource responsibilities. The "interview" phase will occur both on site at client location and virtually. A detailed overview of what data the client needs to have available, for the onsite portion of the audit, will be released prior to the day of the onsite Audit.

***Phase 2~The Due Diligence Audit*:** During the due diligence phase we will review the company's current state and evaluate whether or not specific practice areas are adequate, legal, compliant and/or effective. We will conduct a 20 Point Audit Review.

20 Point Review

1) People Strategy: What is the company's plan for its staff? Is the plan aligned with the culture/mission of the company and do the staff truly understand/buy-into this culture/mission? What does the management team want to accomplish over the next 1, 3, 5 years? Are the right people in place to accomplish these objectives? What are the ramifications to the company if the right people are not in place or trained so that they can do the job that is required of them?

Our Objective throughout entire audit: Help to ensure that the Company is considered the ***Employer of Choice*** and maintains a culture of *trust*, *loyalty* and *integrity*.

2) Recruiting New Team Members: Recruiting processes (is process centralized or decentralized, what is the experience of the recruiter, are passive seekers recruited or are candidates coming from Monster/ CareerBuilder/Craigslist websites, what is the overall plan for recruiting, what does the ideal employee look like for each position), interview questions, reference checks, credential verifications, pre-employment testing (I.e. alcohol & drug screening), background screenings, personality assessments (are they used and if so how is the data gathered being used to ensure the right people are identified and retained) internal policies adhered to during sourcing phase.

What is the turnover percentage and why are certain positions turning over faster than others?

3) Job Descriptions/Position Overviews (ensure for ADA Compliance).

4) On boarding of new hires- New hire orientations, forms used, training (e.g. harassment, conduct, benefits) and process followed will be reviewed.

5) Employee Forms/New Hire Packages- Both required federal forms and forms created by the Company.

6) Employee files: A random sample of 20% of the employee files will be reviewed. **If deficiencies are noted, we will work with on-site representative to get deficiencies corrected as we go through each employee file.** A breakdown of all employee files reviewed and their contents will be included in the HR Audit Report. Any deficiencies noted, and recommended next steps, will be included in the Audit Report. Additionally, a standard operating procedure will be included in the Audit Report that outlines how employee files should be maintained/what should be maintained in the files and what is recommended to be retained separate from the general employee file.

7) Employee Relations: How are employee issues handled, documented, overall morale, turnover, unemployment. Are employees allowed to "vent" too much? Is there a Progressive Discipline policy in the employee handbook and if so is it followed?

8) Labor/ Rights & Responsibilities Postings: Employers are required to post federal, state and local posters in conspicuous areas that are frequented by staff at each location where the company is doing business. In addition, Workers Compensations Rights & Responsibilities notices should be reposted and updated annually.

9) Unemployment, Worker's Compensation, Employment Practice Liability Coverage, E&O, Directors and Officers Liability Coverage- Coverage limits reviewed, experience & usage reviewed, exclusions & inclusions reviewed. (Harassment policies will be reviewed to help ensure renewal of EPLI coverage)

10) Fringe Benefits & ERISA, FSA, HSA/HRA, COBRA Administration & Agreements/Contracts with Insurance Broker & Reconciliation of Monthly Premium Invoices.

11) Ending the employment relationship (severance releases, wrongful termination claims, class actions, human relation claims, terminations/resignations, exit interviews (collecting data regarding terminations /percentages of staff that turnover), final pay, notification to current employees, notification to the insurance providers).

12) Recordkeeping and adherence with Family Medical Leave (FMLA) and Fair Labor Standards Act (FLSA). Dealing with many different classifications such as: Salaried/Exempt vs. Hourly/Non-Exempt classifications and Employee vs. Contractor, Volunteer and Interns.

13) Tracking of Paid Time Off/Recordkeeping of hours worked. (Breaks, PTO, Holiday, Jury Duty, Bereavement, Comp Time, inclement weather, attendance at conferences/trainings)

14) Employee Handbook & Policies & Procedures: . As part of the audit process, McP will review the handbook and provide any recommendations to help ensure legal compliance.

15) Training & Development: The current training plan will be reviewed. Some recommended trainings are outlined below that will assist the company in mitigating employment related risks, as well to ensure compliance in states that require training. **During the Audit, McP will review the State of PA's WedNet Training grant program and how the Company may benefit from applying for this grant.**

- Workplace Boundaries
- Inappropriate Behavior and Communicating Non-defensively
- Harassment/Bullying
- Sexual Harassment
- EEOC Compliance
- Performance Evaluations: Empowering staff who were promoted into Team Leader positions how to navigate through the evaluation process with confidence to obtain positive results
- Many other trainings will be suggested

16) I-9 Form/Supporting Documentation Audit: Review sampling of I-9 forms and supporting documentation will be reviewed.

17) Payroll & HRIS Systems: All systems will be reviewed. E.g. How are non exempt employees submitting their time? How are exempt employees submitting their time? How is overtime submitted/tracked? Ensure that the payroll system and paystubs are updated with correct banking institution information and pay frequencies/accruals.

18) Overall Human Resource Compliance: ADA & EEOC & OSHA & ERISA & FMLA

19) Performance Management: How is staff evaluated? Are self-evaluations conducted by the employees? Does the management team feel performance reviews are a help or a hindrance? How does staff perceive the process? Has the ROI on the current form/process ever been reviewed?

20) Compensation Management/Executive Compensation Plans: What is the strategy used to ensure compensation pay scales are in line with industry standards, what motivates your staff (it is generally much more than money), is the overall package offered to staff satisfying their needs and allowing them to feel like they are appreciated and recognized for their efforts? (Salary surveys, of each position, are available at an additional cost)

Phase 3~Audit Report: The Audit Report will be released 45 business days after we complete the interview with key personnel and the review of all policies and procedures and reports.

- The Report will include a Risk Assessment Analysis and overall compliance recommendations.

Phase 4~Consultation with Designated Representative(s): Findings of Audit to be reviewed with designated representative(s). Throughout the Audit if we notice any discrepancies we will do our best to correct issues as we encounter them OR an action plan will be formalized. The Audit report will recap our findings and outline any tasks that we recommend be addressed.