

# Why a Human Resources Audit?

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**A**n audit can be described as an unbiased examination and evaluation of systems and processes of an organization in order to demonstrate whether they are in compliance with a standard. The human resources (HR) function of any business, including cooperatives, covers all aspects of the employer's relationship with its employees: personnel policies, hiring, orientation and training, performance evaluation, compensation, corrective action including termination, safety, record-keeping, and organizational development.

Whether conducted internally (by employees of the organization) or externally (by consultants), an audit of your co-op's HR systems can help you do the following:

- Demonstrate that management is in compliance with board policies on treatment of staff.
- Ensure that your HR practices are in compliance with federal and state laws.
- Find improvements you could make in administrative efficiency.
- Prepare for expansion and growth by taking your HR systems to the next level.

## Monitoring for staff treatment

Co-op boards want assurances based on objective data that their employees are well treated. An audit report can answer such questions as:

- Are the personnel policies clear enough that staff can abide by them and managers can carry them out?
- Are there people being paid outside the pay range for their job on the pay scale? Are there outliers within pay ranges that can't be explained clearly by reference to hire date or past evaluations?
- Is the grievance procedure robust enough to handle all types of staff complaints so that they won't end up in the board's lap?
- Are documentation, security, and retention of personnel records adequate to comply with employment laws, prevent identity theft, and provide information for personnel decisions?

In addition, it helps if someone other than the general manager reviews the GM's personnel file and payroll records and verifies that

the GM's own compensation is in fact what the board has authorized.

In monitoring staff treatment, HR audits complement employee surveys. Surveys can tell the board how satisfied employees are with their pay and benefits, with how the personnel policies are applied, with how corrective action is handled. In contrast, HR audits tell the board whether the co-op's pay and benefits, personnel policies, and corrective actions are being administered fairly and consistently (without favoritism or arbitrariness).

Employees are not necessarily in a position to know whether certain HR practices are being followed consistently for everyone. Surveys reflect their point of view, which is vitally important for board and management to know and to address because perceptions drive behavior. But those perceptions aren't the same as an unbiased evaluation of actual HR practices.

## Complying with employment laws

An audit can show you whether your documentation of personnel actions is robust enough to stand up to outside inquiry, such as an administrative hearing for unemployment benefits claims, an EEOC complaint, or a wrongful termination lawsuit. By reviewing randomly selected personnel files of current and recent employees, an auditor looks for answers to questions like these:

- Are the personnel policies themselves legally compliant?
- Does documentation for corrective action dovetail with the co-op's own policies?
- Are performance problems documented with a similar degree of detailed evidence from one employee to another?
- Do evaluations reference corrective actions that occurred during the period covered by the evaluation?
- If the basis for termination was violation of a co-op policy, is there evidence that the employee knew about the policy?
- Are employees eligible for benefits receiving them? If not, are there signed waivers



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showing that they declined the offered benefit?

- Are accidents and injuries properly recorded?

Small co-ops without experienced full-time HR managers benefit from HR audits because they need help putting in place basic structures—filing systems that ensure appropriate content, personnel policies that cover all the bases, hiring procedures that attract and select the best workers, and performance evaluation procedures that provide clear goals and help employees achieve them. An audit can help ensure that management is not inadvertently breaking laws. In one instance, an audit of a small co-op with \$1 million in sales revealed that the pay rate of department managers was too low (less than \$455 a week as of this writing) to permit them to be paid on a salary basis. Such a violation of the Fair Labor Standards Act could have resulted in stiff fines if the Department of Labor Wages & Hours Division had audited the co-op.

But larger co-ops can be out of compliance, too. A multistore co-op subjected to a Wages & Hours division audit did get fined for not paying overtime on bonuses based on hours worked. Sometimes legally required posters are missing from the breakroom. When we've done audits, we almost always find some incomplete I-9 forms.

## Improving efficiency

Over time, especially after a period of rapid growth, HR systems that once worked well no longer serve the co-op. Layers of policies and forms can build up that contain internal contradictions or inconsistencies. If HR staff labors under a mountain of paperwork, trying to keep track of dozens of different forms for each employee, that's a sign that there may be too many policies or contradictory policies.

A proliferation of policies and procedures can also make it difficult for all the managers to be on the same page when it comes to hiring, pay raises, and corrective action. Policies can fall behind the times and fail to reflect changes in employment laws and technology. Pay scales too can become obsolete if new workers get hired at pay rates well above the base of their pay range and longtime workers get raises that take them beyond the top. In response to out-of-date or unworkable HR policies and systems, different department managers may go different ways, creating workarounds or “guerilla HR systems” in the process. As a result, the HR department's workload is increased in the effort to administer multiple systems.

Inefficiencies in HR systems can also occur when management attempts to manage by policy instead of addressing individual abuses. For example, in the past, some employees at one co-op took advantage of benefits by failing to maintain the required number of worked hours. In response, restrictions were written into the

policies limiting how paid time off can be used, details that now require HR oversight.

An HR audit can ask these questions to find areas for efficiency improvements:

- Are the personnel policies all in one easily accessible place, with individual policies found through a table of contents or index or search engine?
- Is there written guidance for supervisors on how to implement the policies? Is that guidance succinct and easy to follow?
- Do forms for personnel recordkeeping cover several bases instead of requiring a multitude of separate forms?
- Is a uniform template used for all types of job descriptions? Is the template overloaded with “boilerplate” or does it allow the unique job duties to be easily grasped?
- Are evaluations timely? If not, is the process unduly cumbersome?
- Is benefits enrollment high? If not, is information on benefits provided? Is it easy for staff to access and written in straightforward, easily comprehensible language (as opposed to “insurance-speak”)?

Furthermore, if the co-op is planning to expand the workforce by moving to a larger location or opening a second store, HR systems must be considered in planning along with all the other operational systems. Planning for expansion requires building capacity in HR. With more employees comes more risk of

interpersonal conflicts; policy abuses and legal violations, even if inadvertent; and accidents and injuries. If there is a lack of accountability in supervision now, the problems will be compounded with a larger staff. An audit can show management where HR staff efforts need to be focused in order to ensure sound systems are in place prior to expansion.

## Taking it to the next level

HR work can be transactional or transformational. Transactional HR works within existing systems and concentrates on recordkeeping, documentation, and legal compliance. A transformational approach to HR focuses on identifying and analyzing problems and creating solutions, or partnering with others in the co-op to create solutions. Major changes confronting the co-op—expansion, new competition, threats of disasters—call for transformational HR.

An HR audit can help a co-op identify opportunities for transformation. Many transformation initiatives start with determining the data needed, collecting and analyzing the data, and looking for patterns. Here are some ways to practice transformational HR:

**Staff turnover:** Analyze where in the co-op and when in the employee life cycle turnover tends to occur. Conduct face-to-face exit interviews with open-ended questions, if the staff size and turnover rate permit. For larger co-ops, interview perhaps one in every three departing employees, and ask the others to fill out a questionnaire online. Ask about on-the-job training, pay and benefits, evaluations, and supervisor relations. Mine employee survey data also.

Then identify opportunities for increasing retention, such as more supervisor development or more paths to promotion. If high turnover in certain departments and labor markets is unavoidable, create super-efficient training programs and other practices that support shorter-term workers on the front-end or deli counter.

**Safety:** Analyze the circumstances in which accidents occur—departments, types of injuries, time of day, etc. Interview injured employees and witnesses. Identify underlying causes—lack of thorough training, overcrowding, faulty equipment, understaffing—and work with managers to develop solutions that address these causes.

**Benefits:** Instead of just accepting what an insurance broker hands you, research creative benefits solutions, such as Healthcare Reimbursement Accounts and Healthcare Savings Accounts, self-funded dental, or short-term disability insurance.

**Hiring:** Identify recruiting sources that ►

## Staff treatment policies can be monitored by HR audit

Following are examples of staff treatment policies that can be monitored by means of a HR systems audit.

The General Manager shall not treat staff in any way that is unfair, unsafe, or unclear. The GM will not:

1. Operate without written personnel policies that:
  - a. Clarify rules for staff.
  - b. Provide for fair and thorough handling of grievances in a way that does not include the board as a participant in the grievance process.
  - c. Are accessible to all staff.
  - d. Inform staff that employment is neither permanent nor guaranteed.
2. Cause or allow personnel policies to be inconsistently applied.
3. Provide for inadequate documentation, security, and retention of personnel records and all personnel-related decisions.
4. Establish compensation and benefits that are internally or externally inequitable.
5. Change the GM's own compensation and benefits, except as his or her benefits are consistent with a package for all other employees.

Source: *Cooperative Board Leadership Development (CBLD) Policy Register Template*, [cdsconsulting.centraldesktop.com/cblld/doc/3154572/w-Library](http://cdsconsulting.centraldesktop.com/cblld/doc/3154572/w-Library)

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◀ bring you the best candidates, and focus your attention there. Instead of just posting job announcements on your website, sell the co-op as a great workplace and start communicating your expectations with a dynamic jobs page. Prescreen job applicants in order to leverage the hiring manager's time. Identify the competencies needed for success in each job, and design interview questions to reveal how well the candidate meets them.

**Orientations:** Think strategically about the co-op's Ends and how workers contribute to them. Then design programs that involve other staff besides HR to teach new workers about the cooperative movement, your co-op's ownership and decision-making structure, natural foods, the meaning of organic, different dietary needs, safety, and customer service. Use this early opportunity to clearly establish the co-op's expectations of its employees and to clarify how the role of staff in a consumer co-op is different from that in a worker co-op.

**Communication channels:** Study the flow of information, top-down, bottom-up, and interdepartmentally, to locate bottlenecks and breakdowns. Employee survey data can be useful here, too. Then partner with IT staff and other managers to develop more effective systems.

These are only some examples of ideas that can come out of an HR audit. Obviously, in order to devote time to transformational work, HR staff must find ways to streamline its transactional workload. An audit can suggest ways to move some transactional tasks off the HR staff's plate as well as point to opportunities to invest saved time in projects that will transform the organization.

In sum, the careful, objective evaluation provided by an audit can yield information critical to the successful development of the co-op's human resources. With more effective people management, co-ops can create the momentum necessary for success and sustainability in the marketplace. A human resources audit can help your co-op become the employer of choice in your community. ■

### FINAL TIPS

If you conduct an internal HR audit, there are guides available such as this one from the Minnesota Department of Labor:  
[www.positivelyminnesota.com/Business/Starting\\_a\\_Business/Basics\\_for\\_Employers/Conducting\\_a\\_Human\\_Resources\\_Audit.aspx](http://www.positivelyminnesota.com/Business/Starting_a_Business/Basics_for_Employers/Conducting_a_Human_Resources_Audit.aspx)

If you hire an outside professional, look for previous experience in HR audits and/or certification from the Society for Human Resources Management.

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