



HUMAN RESOURCE COMPLIANCE AUDIT©

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What is a Human Resource Compliance Audit?

Most organizations routinely perform annual audits of their financial polices, practices and recordkeeping to make sure there are no irregularities in their financial systems. Whether conducted by employees within the organization or by expensive outside consultants, these comprehensive financial reviews help companies ensure statutory compliance with dozens of applicable federal accounting and financial disclosure laws. Additionally, as newly enacted financial reporting requirements continue to blur the lines of fiscal responsibilities for financial officers, these audits become increasingly more important. Penalties for statutory non-compliance are also escalating and becoming more severe as the federal government attempts to protect individuals from corporate financial malfeasance.

Comparable to a financial audit, an HR compliance audit is a diagnostic tool for practices to assess the health and compliance of their human resources policies, procedures and protocols. Whether a practice employs 5 or 500 employees, this comprehensive review can help owners and managers avoid the significant legal and/or financial penalties for not complying with the vast array of complicated employment laws while ensuring their procedures are adequate and effective. In essence, an HR audit involves identifying issues and finding solutions to problems before they become unmanageable. It is an opportunity for a practice to determine what it is doing right and what needs to be corrected.

Why is an HR Compliance Audit Necessary?

In today's evolving and fluid global economy, employers are facing workforce challenges, heretofore, unimagined, unaddressed, and immeasurably complex. We are all well aware of how legalistic human resource management has become. Gone are the days of "shooting from the hip" on employee-related decisions and policies. Even the most forward-thinking and well-intentioned companies are bound to misstep and inadvertently non-comply with certain federal, state and/or local statutes. Despite costly and time-consuming efforts by companies to protect themselves from employee claims of unfair treatment, workers will always seek remedies for actions they perceive to be unjust. Failure to properly comply with the plethora of laws pertaining to each of these issues can result in tremendous financial, civil, and in some cases, criminal penalties. Further exacerbating the potential for non-compliance is the fact that each state can institute its own employment laws that may or may not be consistent with the federal laws from

which they were crafted. There are scores of state laws that provide employee rights that are slightly different from those afforded through federal statutes. Finally, legislation granting additional employee rights seems to be popping up on a daily basis. As a result, the HR procedures established today may not be legally compliant tomorrow.

An effective human resources compliance audit will identify, assess and analyze those areas that may give a practice legal headaches if challenged in a court of law. Often performed by a knowledgeable human resource specialist or an attorney, a compliance audit of the human resource functions should be mandatory for every practice that wishes to successfully defend its employment practices and policies. Courts are more likely to respond favorably towards practices that have taken “good faith efforts” to establish legally compliant HR procedures and protocols. A compliance audit can also help practice owners and managers accomplish the following:

- Identify employment practices and policies that are missing, outdated, or in need of revision.
- Develop a framework of analysis within which employee performance issues can be easily identified and prioritized.
- Assess and measure expected vs. actual performance to create the necessary action plans to eliminate any performance gaps.

Determine Your Human Resource Compliance Index

Conducting a Human Resources Compliance Audit requires a commitment of time, money and resources. Therefore, before a practice commits to undergoing an audit, it should first determine whether an audit is actually needed. While there may be many reasons for a practice to conduct an audit, some of the more compelling ones are:

- If a practice has terminated an employee for cause within the past three years. It is not uncommon for terminated employees to seek retribution from former employers for what they perceived to be unfair dismissals.
- If a practice has ever been the recipient of an unfair labor charge from the Department of Labor or any other federal or state regulatory agency.
- If a practice has realized significant growth over a period of time. Oftentimes, this growth is accompanied by hiring additional staff members, which may require the practice to adhere to different laws than would apply to smaller practices.
- If a practice has experienced turnover in key managerial or administrative personnel. Oftentimes, new employees do not receive sufficient training on proper HR procedures and requirements.

- If a practice has merged with one or more other practices. It is not unusual for HR procedures to take a “back seat” to other protocols that must be created when assimilating practices.
- If a practice is truly committed to satisfying its mission statement and/or core values, it may want to review its employee practices to ensure it has established and maintained veterinary industry “best practices”.
- If your practice’s HR Compliance Index is below an acceptable level.

What exactly is an HR Compliance Index and how is it calculated? The index represents a numerical summary of responses to a predetermined set of probing questions. (Please see the Compliance Index questionnaire at the end of this article to calculate the HR Compliance Index for your practice). The questionnaire consists of twenty-five yes/no questions designed to help a practice identify areas of non-compliance with applicable federal and state employment laws. Each “yes” answer is worth 1 point; a “no” is worth 0. Thus, the maximum score that can be achieved is 25. By answering this subset of questions extracted from the actual audit, a practice can quickly and easily assess whether an audit is needed. Any practice scoring below **20** should seriously consider having an HR Compliance Audit performed at its facility.

The Bottom Line

It is becoming increasingly more difficult for practice managers and administrators to stay abreast of all the changes that potentially impact how applicants and employees must be treated. The legal arena in which practices must now operate continues to evolve and become extremely complicated and complex. In light of the frequency with which employment laws are being enacted, veterinary industry practitioners have begun to comprehend and recognize the importance of ensuring their human resource policies, procedures and protocols are managerially efficient and legally defensible. One of the best ways to protect your practice is to conduct an HR Compliance Audit.

If you would like to discuss the results of your Index, or if you answered no to any of the questions below, I will be happy to provide an initial assessment of whether an HR Compliance Audit should be conducted at your practice.

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Human Resources Compliance Index Questionnaire

YES **NO**

Documentation and Filing

- Do you have a separate employee folder for each employee _____
- Do you know what should and should not be maintained in the employee folder (i.e., signed employment application, I-9 Employment Eligibility Verification form, medical leave of absence requests, etc.) _____
- Do you know how long various records must be maintained _____
- Do you have a written procedure for responding to referrence checks regarding former employees _____

Recruitment & Selection

- Do you have written job descriptions for **ALL** jobs _____
- Have you trained interviewers or issued written procedures on how to conduct lawful interviews _____
- Do you know if there is any language in your job descriptions that may be considered discriminatory _____
- Do you get a completed and signed application from every interviewee _____

New Hire Orientation

- Do you have an employee handbook or manual _____
- If you have an employee handbook or manual, has it been reviewed by employment counsel within the past 12 months _____
- Have managers and employees been trained on discrimination and equal employment policies (i.e., sexual harassment, age discrimination, etc.) _____

Wages & Hours

Do you maintain accurate records of hours worked by nonexempt employees	_____	_____
Are you sure all employees are paid in accordance with the federal Fair Labor Standards Act	_____	_____
Do you know if your facility/practice is subject to the federal and/or state Family Medical Leave Act (FMLA)	_____	_____
Do you have a policy for retaining benefits documents, in accordance with ERISA	_____	_____

Safety & Security

Do you comply with OSHA requirements	_____	_____
Are Material Safety Data Sheets (MSDS) available for review	_____	_____
Does the practice/facility have a "disaster recovery plan" for electronic records	_____	_____
Do you have a written "red flag rules" policy and related protocols	_____	_____

Performance Management

Do you have a formal performance evaluation program	_____	_____
Have managers been trained to conduct performance reviews	_____	_____
Are training and developmental plans created from performance reviews	_____	_____

Other

Are applicable federal, state and local employment law posters properly and prominently posted	_____	_____
Do you have independent contractors paid through 1099's	_____	_____
Are you sure your practice is in compliance with all applicable employment laws	_____	_____

NOTE: Any practice scoring below 20 should seriously consider having an HR Compliance Audit performed