Audit Review of HR Recruitment and Grievances

Project Number: HR.RecGriev.2012
Audit Review of the HR Recruitment and Grievances
Internal Audit Department Project # HR.RecGriev.2012

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To: NeighborWorks America Audit Committee

Subject: Audit Review of the HR Recruitment and Grievances Internal Audit Department Project HR.RecGriev.2012

Please find enclosed the final audit review report of the Corporation’s HR Recruitment and Grievances.

Please contact me with any questions you might have. Thank you.

Frederick Udochi
Director of Internal Audit

Attachment

cc: E. Fitzgerald
    M. Forster
    P. Kealey
    J. Bryson
    A. Weithers
    S. Wu
Function Responsibility and Internal Control Assessment
Audit Review of the HR Recruitment and Grievances

<table>
<thead>
<tr>
<th>Business Function Responsibility</th>
<th>Report Date</th>
<th>Period Covered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Resources</td>
<td>June 30, 2011</td>
<td>September 2009 - March 2011</td>
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</tbody>
</table>

Assessment of Internal Control Structure

| Effectiveness and efficiency of operations | Generally effective.¹ |
| Reliability of financial reporting        | Generally effective. |
| Compliance with applicable laws and regulations | Generally effective. |

This report was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing.*

¹ Legend for Assessment of Internal control Structure: 1. Generally Effective: The level and quality of the process is satisfactory. Some areas still need improvement. 2. Inadequate: Level and quality of the process is insufficient for the processes or functions examined, and require improvement in several areas. 3. Significant Weakness: Level and quality of internal controls for the processes and functions reviewed are very low. Significant internal control improvements need to be made.
**Executive Summary of Observations, Recommendations and Management Responses**

<table>
<thead>
<tr>
<th>Summarized Observation; Risk Rating</th>
<th>Management Agreement with Observation (Yes/ No)</th>
<th>Internal Audit Recommendation</th>
<th>Accept IA Recommendation (Yes/ No)</th>
<th>Management’s Response to IA Recommendation</th>
<th>Estimated Date of Implementation</th>
<th>Internal Audit Comments on Management Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>The process to retrieve historical job vacancy information/details is inefficient and prone to human error.</td>
<td>Management accepts IA’s observation</td>
<td>We recommend the HR department automate the job vacancy tracking process using the [redacted] HR module.</td>
<td>Management accepts IA’s recommendation</td>
<td>HR generates a recruiting activity report that is saved weekly, albeit utilizing a desktop word processing and spreadsheet tool. This report in conjunction with the regularly generated vacancy report allows the corporation to provide specific point in time reporting. The corporation is in the midst of bringing up [redacted] that is addressing this observation, and in FY 2012 and going forward, [redacted] will be the sole system used for this type of record keeping.</td>
<td>Full implementation expected by 12/31/2011</td>
<td>IA has no further comments on the report and will follow up with management’s implementation of IA’s recommendation.</td>
</tr>
<tr>
<td>Summarized Observation; Risk Rating</td>
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<td>Internal Audit Recommendation</td>
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<td>Documentation supporting the grievance lifecycle was not sufficient</td>
<td>Management accepts IA’s observation</td>
<td>We recommend the HR department maintain all original files (to include any medium or transmittal) that were used by the employee to convey a grievance report. This should be maintained in a controlled yet easily retrievable area and subject to the corporation’s record retention policy. ²</td>
<td>Management accepts IA’s recommendation</td>
<td>There have been two grievances that were filed during the past 18 to 24 months, and both were filed via email with the actual electronic version of the grievance document attached. In this email, the division director and director of human resources were both copied. A record of the grievance and the response is actively maintained securely within the central employee relations folder archived on the HR shared disk-drive. In the event the actual grievance document is needed by another staff member, the grievance may be accessed by appropriate staff with rights to the specific HR site; HR is committed to maintaining hard copy files, and utilizing some of the functionality of the new platform in the administration grievances going forward.</td>
<td>Full implementation expected by 12/31/2011</td>
<td>IA has no further comments on the report and will follow up with management’s implementation of IA’s recommendation.</td>
</tr>
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<td>Summarized Observation; Risk Rating</td>
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<td>The HR department has not established a process to formally close out employee grievances and document employee acknowledgement of grievance resolutions.</td>
<td>Management accepts IA’s observation</td>
<td>We recommend that the HR department incorporate an internal procedure requiring signed acknowledgement from the employee filing the grievance that the matter has been “closed” either by acceptance of the employee’s remedy, other agreed upon remedy, or by the transfer of the case to the Office of General Counsel, in the event a case be escalated.</td>
<td>Management accepts IA’s recommendation</td>
<td>HR will implement measures to ensure that the employee acknowledges the final grievance resolution. While the corporate policy is silent on this, this measure will allot a reasonable period for the employee to complete the acknowledgement, after which, if the employee does not reply or escalate the grievance, their silence will be considered acceptance.</td>
<td>10/01/2011</td>
<td>IA has no further comments on the report and will follow up with management’s implementation of IA’s recommendation.</td>
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</table>

2 See Administrative Manual section 1012 “Records Management and Retention Guidelines”
Risk Rating Legend:

Risk Rating: **HIGH**

A serious weakness which significantly impacts the Corporation from achieving its corporate objectives, financial results, statutory obligations or that may otherwise impair the Corporation’s reputation.

Risk Rating: **Moderate**

A control weakness which could potentially undermine the effectiveness of the existing system of internal controls and/or operational efficiency, integrity of reporting and should therefore be addressed.

Risk Rating: **Low**

A weakness identified which does not seriously detract from the system of internal control and or operational effectiveness/efficiency, integrity of reporting but which should nonetheless be addressed by management.

<table>
<thead>
<tr>
<th>Management Response to Audit Review Recommendations</th>
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<tbody>
<tr>
<td><strong># Of Responses</strong></td>
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<tr>
<td>---------------------</td>
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<tr>
<td>3</td>
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Disagreement with the recommendation(s)
Audit Review of Recruitment & Grievances

Objective

This was a combined review of the Recruitment and Grievances processes of the Human Resource (HR) function resulting in the following audit objectives:

To obtain assurance that the HR function maintains controls to ensure recruitment and selection processes are made in accordance with applicable laws, regulations, and corporate policies.

To obtain assurance that procedures are in place for the identification, documentation, investigation, and final resolution of problems arising from the grievance process.

Scope

For the purpose of this review, recruitment is defined as “outreach activities to attract qualified, eligible applicants for employment”\(^3\). The following activities were excluded from this review: 1) Non-compensated positions (e.g. internships, vacancies filled by an independent contractor or outside consultant) and 2) Open vacancies filled by internal staff either through a promotion or job change.

Per the Administrative Manual, the grievance procedure is “designed to assist the staff member in articulating the problem and recommend a remedy”\(^4\). Grievance issues are any major staff-related problems brought on by a staff member that was not resolved at the immediate supervisor level. This would include events involving inequities in the workplace; however, any issue addressed under the Whistle-Blower Policy and Equal Employment Opportunity Commission (EEOC) complaint policy was excluded.

It is the intent of the IAD to review all related documents on a summary level to ensure engagement objectives outlined above have been met.

The scope of work for this review is from September 2009 through March 2011.

Background

Recruitment & Grievances are two key processes carried out by the HR department of NeighborWorks America (the “Corporation”). Internal Audit opted to combine the review of the Grievances process with Recruitment, due to the small number of reported

\(^3\) Section 205 of the Administrative Manual
\(^4\) Section 224 of the Administrative Manual
grievance cases and the importance of obtaining assurance on the corporation’s grievance procedures.

Based on data provided by the HR department, the Corporation hired 54 employees during the audit period indicated above. As a result the HR department actively engaged in recruitment activities to identify, attract, and engage qualified candidates to fill open positions.

Based on the data provided by the HR department, we also determined that there were only two grievance cases reported during the audit period. While grievance occurrences were infrequent, the consequences of not handling employee grievances appropriately can pose both a legal and reputational risk to the Corporation.

In a survey conducted by the [5 Based on the 2010 survey results published by the - “List of Top 10 Code of Conduct Allegations”], there is a strong indication that reports of harassment with a 20% frequency of occurrence; is a prevalent code of conduct violation that could hamper an organization’s operation and reputation if not timely handled. Cases of discrimination and conflict of interest were the next frequently featured types of code of conduct violations indicated by the survey. In order to mitigate any potential reputational risk, the Corporation must strive to ensure that it maintains an adequate grievance process.

We observed the following observations and made corresponding recommendations:

**OBSERVATIONS and RECOMMENDATIONS:**

**Recruitment**

*Observation #1:* The process to retrieve historical job vacancy information/details is inefficient and prone to human error. Based on a walkthrough of the recruitment process, IAD noted that current job vacancy information is recorded on an Excel spreadsheet maintained by the HR department and the Financial Planning Analysis and Contracts (FPAC) department. The spreadsheet did not include a comprehensive listing of historical job vacancies and related resolutions. While the HR staff is able to generate a Vacancy Report through manipulation of multiple Excel spreadsheets, this process is manual in nature, time consuming, and could potentially jeopardize the integrity of the report.

*Recommendation #1:* We recommend the HR department automate the job vacancy tracking process using the HR module. IAD recommends the HR department consult with the developers during the initial user requirement stage to the incorporate a job
vacancy tracking system into the module’s workflow. This job vacancy tracking feature should enable the HR department to timely and accurately record, update, and retrieve historical and current job vacancy information for management reporting and decision making purposes.

**Grievances**

**Observation #2:**
There were two grievances communicated to HR via the formal grievance process during the audit period. Based on the testing performed, IAD notes documentation supporting the grievance lifecycle was not sufficient. For example, documentation supporting the original employee grievance received was not retained. In addition, correspondence related to the grievance, grievance resolution, and action plans was not documented and/or retained.

**Recommendation #2:**
We recommend the HR department maintain all original files (to include any medium or transmittal) that were used by the employee to convey a grievance report. This should be maintained in a controlled yet easily retrievable area and subject to the corporation’s record retention policy. In other words, if the grievance were to come in the form of an email, HR is urged to retain the actual email, in electronic format. In handling employee grievances a clear audit trail is of utmost importance. Documentation should include the date, situation, and nature of the grievance; the action management has taken; any investigation results; and the final outcome or settlement.

**Observation #3:**
Based on review of the grievance process, IAD notes the HR department has not established a process to formally close out employee grievances and document employee acknowledgement of grievance resolutions. Per review of the grievance documentation, employee signatures were not obtained nor required to be obtained to acknowledge closure of the grievance.

**Recommendation #3:**
We recommend that the HR department incorporate an internal procedure requiring signed acknowledgement from the employee filing the grievance that the matter has been “closed” either by acceptance of the employee’s remedy, other agreed upon remedy, or by the transfer of the case to the Office of General Counsel, in the event a case be escalated. Acknowledgement should be documented and retained in hard copy or an acceptable electronic format. In situations where HR is unable to obtain signed acknowledgement, statements to the effect that in the absence of signed acknowledgement within 5 business days of communicating such letters, the matter would be deemed closed.

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6 NWA is currently in FY 11 undertaking a systems conversion of Financial and HR systems to

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6 See Administrative Manual section 1012 “Records Management and Retention Guidelines”
Conclusion

Based on the test work performed as part of this review, the Recruitment and Grievances processes appeared to be conducted in substantial compliance with the relevant appropriating language and corporate policies. We would like to thank the HR department for their cooperation during this review.