



Internal Audit Department  
NeighborWorks® America

# **Audit Review of Promotions & Compensation**

Project Number: Human Resources

# **Audit Review of Promotions & Compensation**

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June 28, 2021

To: NeighborWorks America Audit Committee

Subject: **Audit Review of Promotions & Compensation**

Attached is our draft audit report for the Promotions & Compensation review. Please contact me with any questions you might have.

Thank you.

Frederick Udochi  
Chief Audit Executive

Attachment

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**Function Responsibility and Internal Control Assessment  
Audit Review of Promotions & Compensation**

<b>Business Function Responsibility</b>	<b>Report Date</b>	<b>Period Covered</b>
Human Resources	June 28, 2021	September 2019 – August 2020
<b>Assessment of Internal Control Structure</b>		
Effectiveness and Efficiency of Operations	<b>Generally Effective<sup>1</sup></b>	
Reliability of Financial Reporting	<b>Not Applicable</b>	
Compliance with Applicable Laws and Regulations	<b>Not Applicable</b>	

This report was reissued February 15, 2024 in accordance with a recommendation by the Government Accountability Office (GAO-23-105944, June 14, 2023).

<sup>1</sup> **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

Summarized Observation Risk Rating	Management Agreement with Observation (Yes/ No)	Internal Audit Recommendation Summary	Accept IA Recommendation (Yes/ No)	Management's Response to IA Recommendation	Estimated Date of Implementation (Month/Year)	Internal Audit Comments on Management Response
<p><b>Observation 1: Lack of Salary Adjustment or Promotion Policies</b></p> <p>There are no formal policies addressing salary adjustments or promotions within the <i>Administrative Manual</i>. Internal Audit however acknowledges that a process within Human Resources exists for processing salary adjustments and promotions.</p> <p><b>Risk Rating:</b> (b) (5)</p>	Yes	<p><b>Recommendation 1:</b></p> <p>Develop and formalize a salary adjustment and promotions policy and include it within the <i>Administrative Manual</i>.</p>	Yes, modified	<p>HR will include a statement in the administrative manual that promotions and adjustments will be reviewed annually, at the Officer's discretion, budget permitting. Additionally, each year HR will communicate the process to staff at the appropriate time following budget and Officer approval.</p> <p>There is a promotion and adjustment process that has been documented and followed over the last 3 fiscal years. The</p>	12/2021	Internal Audit accepts management's response.

Summarized Observation Risk Rating	Management Agreement with Observation (Yes/ No)	Internal Audit Recommendation Summary	Accept IA Recommendation (Yes/ No)	Management's Response to IA Recommendation	Estimated Date of Implementation (Month/Year)	Internal Audit Comments on Management Response
				email communication sent to All Supervisors in 2019, 2020 and 2021 documents the guidelines, provides a timeline and substantiates procedures specifically addressing salary adjustments and promotions are in place and are being followed.		
<p><b>Observation 2: Update the Awards and Recognition Programs Procedures Document</b></p> <p>The current <i>Awards and Recognition Programs Procedures</i> document does not address administrative day awards; therefore, there are no</p>	Yes	<p><b>Recommendation 2:</b></p> <p>Include administrative days within the <i>Awards and Recognition Programs Procedures</i> document detailing the minimum requirements, procedures, and appropriate level for review and approval.</p>	Yes	HR will update the spot award and special recognition form to include a maximum number of administrative leave days that can be granted.	12/2021	Internal Audit accepts management's response.

Summarized Observation Risk Rating	Management Agreement with Observation (Yes/ No)	Internal Audit Recommendation Summary	Accept IA Recommendation (Yes/ No)	Management's Response to IA Recommendation	Estimated Date of Implementation (Month/Year)	Internal Audit Comments on Management Response
procedures or parameters <sup>2</sup> like the monetary awards.  <b>Risk Rating:</b> (b) (5)						
<b>Observation 3: Lack of Written Procedures for Candidate Offer Workup</b>  The HR department has not formally documented the procedures to conduct a candidate's compensation Offer Workup.  <b>Risk Rating:</b> (b) (5)	Yes	<b>Recommendation 3:</b>  Develop an internal HR department procedure manual to complete the compensation Offer Workup.	Yes	HR will create a one-page job aid to accompany the work-up that notes the factors used in the offer workup to include documentation of how the base salary should be generated. [Specifically, how the total points derived from the candidate's resume are used to determine the comparatio (and resulting salary) based on the market mid-point for the position].	12/2021	Internal Audit accepts management's response.

<sup>2</sup> Monetary recognition awards have a minimum requirement and approval levels depending on the amount of the award.

Summarized Observation Risk Rating	Management Agreement with Observation (Yes/ No)	Internal Audit Recommendation Summary	Accept IA Recommendation (Yes/ No)	Management's Response to IA Recommendation	Estimated Date of Implementation (Month/Year)	Internal Audit Comments on Management Response
<p><b>Observation 4: Outdated Forms</b></p> <p>The designated administrative sections for several HR forms were not completed due to being outdated or the information is already captured somewhere else. Leaving the HR sections blank within these forms may give the perception that the transaction was not completed.</p> <p><b>Risk Rating:</b> (b) (5)</p>	<p><b>Yes</b></p>	<p><b>Recommendation 4:</b></p> <p>Review and update these various forms as necessary to accommodate current processes.</p>	<p><b>Yes</b></p>	<p>HR will update the following forms to align with current processes.</p> <ul style="list-style-type: none"> <li>• Position Request Form (PRF)</li> <li>• Position Description (PD)</li> <li>• Hiring Action Form (HAF)</li> <li>• Internal Employee Promotion Request Form</li> <li>• Special Recognition and Spot Awards</li> </ul>	<p>12/2021</p>	<p>Internal Audit accepts management's response.</p>



## 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.

<b>Management Responses to The Audit Review of: Promotions &amp; Compensation</b>		
<b># Of Responses</b>	<b>Response</b>	<b>Recommendation #</b>
4	Agreement with the recommendation(s)	1, 2, 3, 4
	Disagreement with the recommendation(s)	

**Background:**

NeighborWorks America's most essential resource is its staff and therefore, every effort to attract, retain and reward staff is of critical importance. This includes providing competitive total rewards compensation packages including base pay, performance-based incentive compensation, and other generous benefits. The Human Resources (HR) department oversees the compensation process such as salary negotiations, salary adjustments, promotions, and performance-based recognition awards. Several drivers impact compensation including market salary levels, internal equity, employee skills, education, and experience. All these drivers must be taken into consideration to ensure employees are compensated fairly within the Corporation's salary structure across nine geographic locations.

**Objectives:**

The objective of this review was to obtain assurance surrounding the:

- Design of the Corporation's Promotion & Compensation process; and
- Operating effectiveness of the Promotion & Compensation process.

**Scope:**

The scope of the review included the following aspects to assess design:

- Policies surrounding Promotion and Compensation
- Underlying Procedures
- Compensation Structure
- Job Rating Process
- Performance Appraisals
- Support for Promotions, Merit Increases and Recognition Incentive Payments
- Compliance with applicable laws and regulations

Due to the pandemic, some documentation related to the audit were stored in the office and not accessible. Due to limited access, there was a scope limitation to our review, as Internal Audit could not verify certain transactions for some of the samples requested. Therefore, the conclusions are based on the available documentation provided.

**Methodology:**

Internal Audit met with HR to gain an understanding of the compensation and promotions process. This included the following:

- Corporation's overall strategy
- Compensation Structure:
  - Pay Bands
  - Job Ratings and Pay System
  - Geographic Differentials
- Justification for salary adjustments, promotion, and recognition incentives

- Assessed evidence that demonstrates that there is no adverse impact in compensation structure, actual Compensation, Promotions or Recognition Incentives paid out
- Compliance with state wage orders, state employment discrimination laws (e.g., EEO)

## **Observations and Recommendations:**

### **Observation 1: Lack of Salary Adjustment or Promotion Policies**

An essential and effective component of internal controls is having adequate Policies & Procedures (P&P) that are reviewed and updated annually or as necessary. P&Ps help an organization achieve objectives, operate consistently, and reduce risk. The Corporation has several policies regarding compensation (e.g., merit, bonus, spot awards, etc.) within the *Administrative Manual*; however, there is no written mention specifically addressing salary adjustments or promotions. While there is a process (as evidenced by an email with instructions) sent to all supervisors to initiate salary adjustment and promotions requests, there is no policy or mention of the process within the *Administrative Manual*. The absence of formally documented policies or procedures could result in non-compliance, inconsistent operations, and requirements may be misunderstood by current or new employees, and/or processes could be perceived to be lacking transparency.

#### **Recommendation 1:**

Internal Audit recommends developing and formalizing a salary adjustment and promotions policy and include it within the *Administrative Manual*.

### **Observation 2: Update the Awards and Recognition Programs Procedures Document**

In combination with having adequate policies an organization should have adequate procedures to carry out its policies. Internal Audit noted that awarding administrative days is an option within the Corporation's performance-based recognition program. However, administrative days are not mentioned within the *Awards and Recognition Programs Procedure* document; therefore, there are no procedures or parameters<sup>3</sup> like the monetary awards. Although currently there does not appear to be abuse of awarding administrative days the inclusion of procedures and parameters would help prevent any potential abuse, it's consistently applied, and approved at the appropriate level.

#### **Recommendation 2:**

Internal Audit recommends including administrative days within the *Awards and Recognition Procedures* document detailing the minimum requirements, procedures, and appropriate level for review and approval.

### **Observation 3: Lack of Written Procedures for Candidate Offer Workup**

Internal Audit noted that HR does not have a written internal document describing the procedures to conduct a candidates Offer Workup. The Offer Workup is a key step in the recruitment process and is used to determine a recommended salary range based on experience and internal equity.

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<sup>3</sup> Monetary recognition awards have a minimum requirement and approval levels depending on the amount of the award.

Although, HR does have a process in place, failure to formally document the process could result in inconsistent salary ranges and equity issues.

**Recommendation 3:**

Internal Audit recommends developing an internal HR department procedure manual to complete the Offer Workup. This procedure manual will facilitate consistent application of the Offer Workup within the HR team.

**Observation 4: Outdated Forms**

Internal Audit reviewed several HR forms throughout this review and noted that the administrative sections designated mainly for HR were not completed. These sections do not authorize the respective transaction but may have assisted HR from an administrative perspective at one point or the information is already captured somewhere else. The forms reviewed are as follows:

- Position Request Form (PRF)
- Position Description (PD)
- Hiring Action Form (HAF)
- Internal Employee Promotion Request Form
- Special Recognition and Spot Awards

Leaving the HR sections blank within these forms may give the perception that the transaction was not completed. It is good practice to ensure that forms have been filled out completely in order to be consistent in the manner in which information is captured. Most especially in areas where a corresponding HR section is left blank.

**Recommendation 4:**

Internal Audit recommends these various forms identified above be reviewed and updated as necessary to accommodate current processes.

**Conclusion**

The audit review identified opportunities for Human Resources to strengthen their operations and internal controls. The review also highlighted that compensation was consistently determined based on several factors including internal equity. On a final note, we would like to take this opportunity to extend our thanks to the Human Resources Department for its collaboration and support throughout this review.