

HR and Accounting: What the HR Professional Needs to Know

HR professionals should know basic accounting concepts to enable them to perform effectively and to enhance their value to the organization

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At first glance the roles of the accountant and the HR professional could not seem to be more different. Many would even deem the two roles to be mutually exclusive. The clichés may still persist of the number-crunching accountant concerned only with “hard” data, or the HR person concerned primarily with “soft” concepts of workplace issues and employee morale. Both clichés, of course, are far removed from reality. In today’s environment, business owners and managers are more aware than ever how various disciplines contribute to the bottom line. In this chapter, we’ll look at how the HR professional can “partner” with the accounting and finance function to contribute to the success of the organization. Also, we discuss the accounting skills and other knowledge that all HR professionals should possess to further enhance their own professional development as well as contribute to the organization’s economic goals.

HR and Accounting

There are many critical roles in which the HR professional can partner with the accounting/finance function. These include:

- budgeting and forecasting;
- evaluating employee productivity and profitability;
- implementing and monitoring internal controls;
- identifying and preventing fraud; and
- establishing and maintaining employee benefit programs.

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Budgeting And Forecasting

This is the area where HR and Accounting interact most often. Typically, the accountant will request specific cost information from HR in order to prepare quarterly or annual expense budgets. However, the HR professional can perform a role much greater than simply as a relater of data once or four times a year. The HR professional can take a proactive role in the budgeting process by performing his or her own analyses on at least a monthly basis. Accounting staffs are often constrained by manpower or day-to-day events from performing in-depth analysis more frequently. By analyzing key costs in a more condensed period than Accounting does, the HR team can identify trends more quickly, and can pinpoint issues or recommend actions by senior management before a problem progresses too far.

One area in which budgeting and forecasting can be done on a proactive basis is in the area of recruitment. Recruitment costs are a factor of market conditions, availability of candidates and experience level required. However, using the previous year's actual recruitment cost as a benchmark, it is relatively easy to predict the required budget amount for the coming year. Additionally, if the HR professional is tracking attrition rates in the company, he or she will also have a good gauge by which to predict any growth or decline in recruitment costs.

Recruitment costs should also be analyzed each year to assure that the vendors or venues used are bringing in the anticipated result. HR professionals who track the agency, referral, website or other means by which candidates are submitted, are able to analyze success rates from each source. It may seem that one particular method provides the most return, but using a spreadsheet, database, or other statistical analysis will give definite proof or even provide some surprises. Just as the accountant reviews information and places it in appropriate columns or categories, the HR professional can turn an analytical eye to recruitment costs to ensure that the company is receiving the best return on each expense.

Keeping a watchful eye on recruitment costs is one way that the HR professional can positively affect the bottom line. Other line items the HR professional can closely monitor and adjust as necessary are employee incentive programs and employee training programs. The HR professional needs to keep a watchful eye on all incentive and training programs to be sure that they are delivering the intended result. All too often, a program is perpetuated purely by reason of its existence, not because it provides a measurable return. Traditional incentive programs based on years of service may provide a needed warmth and thank you from the company. It also may be inconsequential to staff, and in dire need of an in-depth evaluation. If the program does not provide the intended incentive of increased performance or longevity – in other words, if it does not achieve its purpose – it should be reviewed to make it more applicable to the current work environment or eliminated. An annual review of such programs, using a statistical measure, will help you revamp or eliminate unsuccessful programs before they eat away at your company's bottom line.

The same is true of all other rewards programs as well as of training programs. Whether you provide tuition reimbursement, on-site educational benefits or other training programs, the HR professional is responsible for ensuring that those benefits reap rewards for employees and the company. If precious dollars are spent to provide on-site training for employees, the HR professional should cull the relevant data and

analyze the participation rates from each session. In the employee review process, there should be some measure of the training's affect on performance. The HR professional should be able to provide statistical support for the continuation or cessation of any particular program.

Tuition reimbursement programs should also come under his or her watchful eye. How is the program being administered? Are the guidelines in place for the program sufficient? Are we truly training the talented and encouraging them to grow in the company's environment or is the program merely a path by which employees leave the company for other positions? Again, the HR professional would need a strong measure of attrition rates to make this evaluation. He or she would also need statistical data regarding employee turnover and promotion to make a complete analysis.

A major area in which the HR professional can make a huge contribution by understanding the concepts of budgeting and forecasting is by actively researching compensation in the marketplace. One of the major expenses of any employer is paying for his or her employees. The HR professional is responsible for understanding the market outside the company, both in general and as it relates specifically to the company's competitors. Understanding what the company should be paying employees, and targeting salaries and benefits to be competitive in the marketplace, better positions the company to attract and retain top talent. It also has an impact on one of the largest line items in the budget: compensation. The HR professional is in a position to advise senior management of possible changes in the marketplace that may require a marked increase in salaries – which would have to be considered in the budget. Also, by having a strong understanding of compensation in your market, you are better qualified to recommend standard salary increases for the entire company or for top performers. By understanding how such a large line item in the budget can be affected by his or her research and advice, the HR professional can become an invaluable part of the process.

The HR professional has responsibility for one of the main assets of any employer: its employees. Therefore, costs related to those employees including the costs of recruiting, retaining and replacing them are directly related to the HR function. The HR professional should have a complete understanding of the costs involved and should be able to make sound recommendations regarding those costs. By providing seasoned advice to senior management and the accountants on the process, the HR professional can demonstrate a thorough knowledge of the company's business and his or her role in its success. It is imperative for the HR professional to supply statistical support for each relevant line item. With that support, the HR professional can be an integral part of the successful budgeting time and have a positive affect on the bottom line.

Employee Productivity and Profitability

It is important that the HR professional understand the key components of the company's profitability, and how they contribute to that goal. Companies have long acknowledged that their employees are the most critical resource, or asset. Terms like "personnel" or the "staff" are now replaced by the lofty sounding "human capital" or some variation thereof. For any company asset, the accountant is concerned with valuation and productivity. But when it comes to employees, the HR professional is best suited to analyze this particular "asset." Although employee costs can be readily identified and included on a financial statement, the employee as a profit generator

can better be assessed by an HR professional. As discussed above, the HR professional is closely attuned to the costs of recruiting, training, and maintaining employees on the company payroll. These considerations can serve as a leading indicator of performance even before the accountant or financial analyst's evaluation.

Benchmarking surveys can also be performed in a more timely and efficient manner by the HR department. These can provide valuable insights into how one's company compares to its peers in terms of employee satisfaction, morale, and other critical workplace concerns. While not explicitly quantifiable as an accounting "cost," these issues nevertheless need to be considered in measuring employee productivity and ultimately profitability. A basic knowledge of statistical sampling methods and data management is required to perform this task effectively.

One component of employee productivity for which the HR professional is directly responsible is the employee review process. Through the review process, the HR professional is able to extract pertinent information regarding the ability and performance of each employee. By having standard achievement goals and measuring each employee against those goals, the HR professional can provide some tangible evidence of the success or failure of one of the company's major assets. By becoming involved in the process, the HR professional not only becomes integral to the operation of the company, but also learns about the business of the company and becomes uniquely qualified to assess success factors.

The HR professional can coach managers through personnel performance issues and provide assistance to enable all employees to achieve performance goals. In cases where improvement is not forthcoming, the HR professional can assist in the discipline and removal, if necessary, of the underperforming employee. Being the instigator for evaluation, growth and change, is one of the major roles of the HR professional and one that in the end that can have the greatest impact on the bottom line. By providing a means by which the company can assess its human capital, provide appropriate support, promote qualified employees to positions of more responsibility or demote or terminate underperforming employees, the HR professional can increase productivity and profitability.

Another tool in the HR professional's tool box that can affect the bottom line is the evaluation of each department's productivity versus number of employees. An HR professional can help managers understand the productivity requirements for their departments and the related need for staff. Evaluating the appropriate headcount in each department ensures not only that there are enough employees to handle the work, but also the right employees. The HR professional can encourage managers to evaluate the function of their groups to determine whether or not the work is adequately distributed to the right employees. With the help of the HR professional, managers can evaluate the strengths and weaknesses of the group and create job descriptions and flow charts to critically examine whether or not the work is flowing correctly and if it is to the right number of employees. Sometimes in this exercise, the managers realize that they have too many employees. In those cases, HR can assist in the redeployment of employees into positions where their skills are needed, thus better supporting the company in its goals. In instances where staffing is revealed to be inadequate, the HR professional can assess the needs and suggest the appropriate position. Working with the manager of the group, the HR professional can then recruit the right person.

Using statistical analysis to measure the effectiveness and productivity of employees provides invaluable knowledge in the determination of their profitability. Only when the company can be sure that there is proper staffing, management of employees and performance reviews, can it truly understand the contribution of the employees. HR can play a vital role in culling, organizing, and interpreting the data to ensure the headcount in the company is correct. HR can also work to evaluate each employee's performance to be sure that the company is receiving the greatest benefit of each employee. In cases where the headcount is determined to be too high, HR can work to better deploy staff to cover areas in need. In cases where more staff is needed, HR can define the optimal candidate for the department and specifically recruit for it. The HR professional can be a dynamic component in managing and assessing one of the greatest assets of the company, and can provide valuable advice in helping the company become more profitable.

Internal Controls

Traditionally the payroll function will interact closely with HR in order to complete its weekly or monthly cycle. It is crucial that HR staff at all levels possess at least a basic understanding of internal accounting controls. Recent events have revealed that even some of the world's largest and most sophisticated enterprises have met their undoing as a result of a breakdown in very basic and fundamental internal controls. Primary among these is the concept of segregation of duties. That is, one individual employee should not be entrusted with more than one critical function in a control process. For example, the payroll manager should not be the person who simultaneously adds or removes employees from the HR database, while also entering salary and benefit information. Separation of critical functions in the control process makes it much more difficult for an individual employee to perpetrate a fraud. Also, the HR professional should ensure that there are clearly defined methods of communicating changes in employee pay and status information. For example, HR should only process changes in employee pay based on properly authorized, written instructions. Communication of pay raises or bonuses via phone call or verbal means should never be permitted. These are just two examples of the types of control procedures that the HR professional should insist are part of their organization's policies and procedures. Knowledge of internal controls will enable the organization to better safeguard its monetary assets, but also to provide the HR professional with the opportunity to prevent his or her employer from suffering (at a minimum) an embarrassing public exposure or even the economic downfall of the company.

Ensuring internal controls also means that the HR professional is actively involved in risk management. As discussed above, the HR professional should take all steps to ensure that the risk of financial wrongdoing is severely limited and to ensure that the company is not unduly exposed to those who would take advantage if given the opportunity. However, risk management in less overtly financial terms should also be of paramount concern to the HR professional.

Internal controls of employees and employee behavior is a critical risk management issue that can protect the company. All companies should have a written employee handbook which clearly states the policies of the company as they apply to each employee. In that handbook it should be stated clearly that no contract should be inferred from the distribution or acceptance of the materials. However, the employee must acknowledge receipt of the handbook and agree to abide by the policies therein.

In such a handbook it is critical from a risk management perspective to have policies regarding discrimination, harassment, confidentiality, insider trading (if applicable), equal opportunity employment, employee conduct, and substance abuse. These policies should be clear, easy to read and understand, and available to all employees. There also should be a clear explanation of benefits and the requirements for eligibility. It is imperative for the HR professional to disseminate information clearly to all employees so that if a dispute or termination arises from a violation of a company policy, the company can effectively defend its actions. By protecting the company against potential employment claims, the HR professional can avoid costly litigation. (for a detailed discussion of employee handbooks, see Chapter 12.)

Preventing and Detecting Fraud

A logical follow-up to the discussion of the HR professional's role in implementing and monitoring internal controls suggests the way that HR can expand and enhance that role. That is to act as the company's watchdog in preventing and detecting employee fraud. The risk exists for all businesses that wish to avoid the fate of Enron, Arthur Andersen, or WorldCom, where the malfeasance of one or a small group of employees brought ruin to the entire organization. Accountants have spawned a whole new line of business to review and ensure compliance with the provisions of the Sarbanes-Oxley Act of 2002. It is incumbent upon HR professionals to be alert and attuned to any indicators of risk in this regard. One of the best methods of detecting fraud is to initiate random and unexpected audits of critical information. For the HR professional, that might include an unannounced audit of the HR database, and comparing employee information between the HR and the payroll databases. This activity would uncover any instances of fictitious (or terminated) employees on the company payroll. In publicly owned companies with large accounting and internal audit departments, such self-audits are normal procedures. In smaller or privately owned enterprises, this could play a much more significant role than it does now.

Employee Benefit Programs

There has been much concern recently over the financial health of various employee pension plans. Troubled companies are increasingly looking for bail outs by the federally funded Pension Benefit Guaranty Corporation to meet shortfalls in promised pension benefits to employees. Also, defined contribution plans, especially 401(k) plans, have come under scrutiny in instances where employee investment options were limited or restricted to the stock of the sponsoring employer. The investment performance of some of these plans suffered greatly with the economic downfall of the employer. While the accounting and financial reporting requirements governing this field are quite complex, the HR professional should possess a working knowledge of how employee pension obligations are determined, and should also play a proactive role in devising plans that protect employee retirement funds, and also serve to attract potential recruits.

Companies typically rely on a combination of accountants, actuaries, and attorneys to ensure that their plans are properly designed, and that they are in compliance with relevant IRS and Department of Labor guidelines. The HR professional can likewise play an important role in this process. Typically the company's pension plan financial records are communicated to the HR department. These should be reviewed and analyzed by an HR professional, particularly with respect to inflows (employee/employer

contributions) and outflows (benefit payments) of plan assets. This can help to ensure that the plan's transactions are authorized and approved. Also, in terms of plan design and compliance, a basic knowledge of the provisions of the Employee Retirement Income Security Act (ERISA) is extremely helpful. This allows the HR professional to ask intelligent questions of the plan's actuaries, accountants, and attorneys regarding questions of plan policies. Also, to the extent that the HR professional knows ERISA, there should be less reliance (and lower associated costs) on those outside advisors.

KEY AREA	HR ROLE	SKILL SET
Budgeting & Forecasting	Proactively perform budget vs. actual reviews. Understand and manage costs associated with employees.	Analytical skills, spreadsheet and presentation, graphical analysis.
Employee Productivity & Profitability	Identify non-monetary costs (i.e., staff hours, resources, etc.); use of benchmarking surveys. Utilize performance reviews; analyze departmental productivity v. headcount; focus on appropriate headcount levels.	Basic statistical sampling methods, data interpretation.
Internal Controls	Advocate of strong internal control policies with the company; enforce compliance with stated procedures; understand basic risk management issues.	Knowledge of basic internal accounting controls.
Fraud	Serve as watchdog for potential fraud; conduct random audits of HR data.	Basic understanding of provisions of Sarbanes-Oxley; basic spreadsheet and database skills to perform internal audit analyses.
Employee Benefit Plans	Review plan transactions; advise on implementation and maintenance of plan policies and benefits.	Basic knowledge of ERISA.

