

UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT MANAGE EMPLOYEE PERFORMANCE, REWARD, & RECOGNITION

Control practices

The following control objectives provide a basis for strengthening your control environment for the process of managing employee performance, reward, and recognition. When you select an objective, you will access a list of the associated business risks and control practices. That information can serve as a checklist when you begin reviewing the strength of your current process controls.

This business risk and control information can help you assess your internal control environment and assist with the design and implementation of internal controls. Please note that this information is at the generic business process level and many companies will need to go beyond generic models to address the specific business processes that support the financial and nonfinancial disclosures being made. You can combine the insight of this business risk and control information with your industry-specific knowledge and understanding of your company's environment when conducting internal control assessments and designing and implementing recommendations.

Effectiveness and efficiency of operations

- A. Performance feedback is provided to employees on a timely basis.
- B. Customer feedback, including the customer satisfaction component, is incorporated into the performance reviews of employees who have customer contact.
- C. Short-term tactical reward systems are established to motivate desired behavior.
- D. Appropriate individual performance measures are linked to stated corporate goals and values.
- E. Team participation is encouraged by incorporating feedback from those with cross-functional responsibilities into performance review and reward mechanisms.

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Effectiveness and efficiency of operations

A. Performance feedback is provided to employees on a timely basis.

Business risks

- Low morale will impair employee performance.
- Management will have fewer opportunities to counsel marginally performing employees to improve their performance.
- Employee turnover will increase.

Control practices

1. Conduct annual or biannual performance reviews on a scheduled basis with all employees.
2. Use standardized performance appraisal documents in the performance review process.
3. Set goals and objectives for the next evaluation period between each evaluator and employee.
4. Require that human resources oversee and monitors the review process to ensure that reviews actually occur.
5. Define performance expectations and the basis for performance measures in advance.
6. Evaluate performance periodically through informal counseling provided by human resources and supervisory personnel.

B. Customer feedback, including the customer satisfaction component, is incorporated into the performance reviews of employees who have customer contact.

Business risks

- Employees having responsibility for customer contact will not use customer feedback information.
- Performance evaluation and reward systems will not provide incentives for the desired behavior in meeting or exceeding valid customer requirements.
- Customer feedback information will be unreliable.

Control practices

1. Establish a clear vision to place customer satisfaction at the top of the company's priorities.
2. Align individual performance measures with business objectives and incorporate a customer satisfaction element.
3. Provide employees with a concise description of their responsibilities for achieving customer satisfaction and accomplishing business objectives.
4. Ensure that employees have the resources they need to reach their performance objectives (particularly employees with customer contact).
5. Monitor customer feedback information and provide it to employees who can make the necessary improvements to the processes.

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C. Short-term tactical reward systems are established to motivate desired behavior.

Business risks

- The performance evaluation and reward systems will not provide incentives for meeting or exceeding valid customer requirements.

Control practices

1. Ensure performance measures assigned to personnel are controllable, realistic, understandable, measurable, believable, and achievable.
2. Base performance measures on the process, not the person.

D. Appropriate individual performance measures are linked to stated corporate goals and values.

Business risks

- Management will not devote the time necessary to link individual performance measures with stated corporate goals and values.

Control practices

1. Ensure each business process supports the processes at the next higher level by having performance measures that are aligned with each other.
2. Link actionable measures to performance appraisals, recognition, and rewards.

E. Team participation is encouraged by incorporating feedback from those with cross-functional responsibilities into performance review and reward mechanisms.

Business risks

- The performance evaluation and reward system will not provide incentives for meeting or exceeding valid customer requirements.

Control practices

1. Require senior management and business process owners to emphasize the importance of continuous improvement.
2. Structure feedback given to employees so that it focuses on process performance and the employees' specific contributions to that performance.
3. Include peer and upward reviews as part of the performance appraisal process.