

# HR INSIGHTS

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## Wage and Hour Self-audits: Red and Green Circles

Wage and hour self-audits are vital for every organization and allow employers to identify employees making above or below their position's average wage. This is crucial for keeping salaries close to industry averages and avoiding potential discrimination lawsuits. A useful way of identifying overcompensated or undercompensated employees is to employ the use of a "red circle" and "green circle" mechanism. The red and green circles method is straightforward and provides a simplistic way of grouping employees.

Before an audit begins, your company will evaluate the market and analyze the pay ranges for your industry. After establishing the ranges, look at employee salaries and see who falls above or below the range for their position. Overpaid employees fall into the red circle category and underpaid employees fall into the green circle.

### Red Circle

Those in the red circle are paid over the average salary range in your industry. In other terms, they are likely being paid more than their position is worth. Employees who fall into this category could end up here for a variety of reasons, including managers caught in an organizational restructuring or long-time employees who were receiving annual wage increases.

Red-circle employees cost more than their value, but the process of changing that is delicate. Possible solutions include lowering salaries (uncommon), implementing a salary freeze until cost-of-living rates increase or encouraging employees to train for certifications that will increase their company worth.

### Green Circle

Employees might end up in this circle due to a promotion without a wage increase or simple restructuring. Those in the green circle do not cost your company as much as red-circle employees, but they are potentially more dangerous. Since green-circle employees are making less than the industry average, there is potential for discrimination-related issues.

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While it is not illegal to pay workers below the industry average, a discrimination lawsuit could be filed if only certain people fall into the green circle. Even if the circumstance was coincidental, the position leaves your company vulnerable. This is why wage and hour audits are important.

The most common way of raising an employee out of the green circle is to either immediately raise the employee's salary to match the average for that position, or adjust the salary to the minimum rate and incrementally raise it from there.

### **Conclusion**

Regardless of your method, wage and hour audits are a critical practice for any organization. The red and green circles strategy is an example of how to identify improperly compensated employees and protect your company. Any method will do as long as you take a careful look at the industry salary ranges and employee compensation figures.

