Health Canada   Santé Canada

Final Audit Report

Audit of Payroll Administration

December 2010

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Executive Summary

Health Canada conducts payroll administration for approximately 11,500 employees located across Canada, including several remote and isolated areas. The administration of pay consists of multiple activities and processes that are required to ensure employees are paid in compliance with applicable laws, policies, collective agreements, and the terms and conditions of employment.

In fiscal year 2009-2010, Health Canada's Salary and Wages expenditures was $846.5 million, which represents 43% of the Department's total operating expenses of $1.97 billion and approximately 450,000 transactions.

The effectiveness of pay administration depends on adequate communications between Cost Centre Managers, human resource specialists and the finance function, the timely and accurate processing of information by compensation specialists, and finally, the review and approval of salary expenditures by Cost Centre Managers.

This report sets out the observations, conclusions, and recommendations from the Audit and Accountability Bureau's audit of Health Canada's Payroll Administration. This audit was included in the departmental Risk-Based Audit Plan for 2010-2011. The audit focused on Core Management Controls from the Office of the Comptroller General. These guidelines are consistent with the ten elements of the Federal government's Management Accountability Framework.

The objective of this audit was to provide the Deputy Minister and the Departmental Audit Committee with reasonable assurance that Health Canada has put in place an effective Management Control Framework for the administration of payroll.

In the professional judgement of the Chief Audit Executive, sufficient and appropriate procedures were performed and evidence gathered to support the accuracy of the audit conclusion. The audit findings and conclusion are based on a comparison of the conditions that existed as of the date of the audit, against established criteria that were agreed upon with management. Further, the evidence was gathered in accordance with the *Internal Auditing Standards for the Government of Canada* and the *International Standards for the Professional Practice of Internal Auditing*.

Based on the results of the audit work, it was determined that Health Canada has a sound Management Control Framework in place for the administration of payroll, which supports the integrity of the Department's payroll transactions. Pay administration processes are established and roles and responsibilities of the various stakeholders are well documented.

The audit also included the review of a random sample of 60 pay transactions, selected across the Department aimed at confirming that controls work as intended. In order to test the main categories of transactions, this sample included regular pay transactions (20 in

total) as well as four other categories of transactions, i.e. compensation for overtime, retroactive pay, maternity allowance and severance pay (10 transactions per category). For this sample, the audit found that employee and position information was generally accurate, documents on file were complete, orderly, and properly approved, and internal controls were effective for ensuring that payroll transactions are accurate, properly approved, and monitored. This review was not aimed at confirming the accuracy of the figures in the payroll accounts.

In order to further strengthen overall stewardship and accountability, and improve the management of Health Canada's pay administration processes, recommendations were made in the following areas:

- Certification and verification of pay transactions under Section 34 and Section 33 of the *Financial Administration Act*;
- Monitoring of payroll transactions; and
- Signing of letters of offer.

Management agrees with the recommendations and its response indicates its commitment to take action.

Introduction

Background

Pay is an amount of money given to an entitled employee, for services rendered during a specific period of time in accordance with the relevant terms and conditions of employment, and the applicable rate of pay determined in a collective agreement or approved by the Treasury Board of Canada for the group and level of the employee's classification. Pay transactions for pay-related benefits result in a payment to an entitled employee for maternity or parental allowance, bilingual bonus, and severance pay.

In fiscal year 2009-2010, Health Canada's Salary and Wages expenditures were $846.5 million (excluding Employee Benefit Plans), which represents 43% of the Department's total operating expenses of $1.97 billion.

Health Canada's Management Control Framework with regards to pay administration involves multiple stakeholders. The Corporate Service Branch (CSB) provides functional direction to Cost Centre Managers and Compensation Units. Cost Centre Managers approve actions that impact pay transactions. Compensation Units then process pay-related transactions and conduct pay administration activities that result in salary payments to entitled employees. Finally, the Chief Financial Officer Branch (CFOB) ensures that salary expenditures are properly recorded in the Department Financial System (SAP) and the information is available for review and approval by Cost Centre Managers.

During the fiscal year 2009-10, the six regional Compensation Units, under the Regions and Programs Branch (RAPB), processed approximately 200,000 transactions for approximately 4,000 employees, located in seven regions outside the National Capital Region (NCR). It should be noted that the Quebec Region manages its pay through a shared services agreement with Public Works and Government Services Canada (PWGSC). Pay administration services for employees located in the NCR (approximately 7,500 employees and 250,000 pay transactions in the same fiscal year) were delivered through two compensation offices in Ottawa and Shawinigan, under the NCR Compensation Unit, part of CSB's Human Resources Services Directorate.

Within the federal public service, the administration of pay and related benefits is complex and is governed by several acts and regulations. Key legislation includes the *Public Service Employment Act*, and the *Financial Administration Act* (FAA).

Additional requirements regarding pay administration are contained in terms and conditions of employment, collective agreements, Treasury Board of Canada policies, and in guidelines developed by the Treasury Board of Canada Secretariat.

Treasury Board Secretariat guidance is provided in the *Directive on Financial Management of Pay Administration,* the *Guideline on Common Financial Management Business Process for Pay Administration* and in the *Pay Administration Control Framework Tool.* These documents set out the broad pay-related controls, administrative principles, and overall responsibility for the administration of pay.

Health Canada's pay management and accounting systems consist of:

- SAP's General Ledger Accounting Module where pay expenditures are posted and the Salary Management System where PWGSC pay data files are processed, assigned coding and posted to the General Ledger. The Salary Management System also generates salary forecasts;
- PWGSC's Regional Pay System that processes pay information inputted by Health Canada;
- HR-Advantage that provides human resource management information; and
- Lotus Notes' Interactive Leave and Absence Module that manages employee leave and vacation requests.

Audit Objective

The objective of this audit was to determine whether Health Canada has an effective Management Control Framework in place for the administration of payroll. More specifically, the audit aimed to determine whether internal controls are effective for:

- Recording, maintaining, and managing Health Canada's payroll transactions; and
- Ensuring that payroll transactions are accurate, properly approved, and monitored.

Scope and Approach

The scope of the audit consisted solely of an assessment of the existing framework for the administration of pay and pay-related benefits that result in a payment to an eligible employee. As a result, other types of benefits such as dental, health, disability and life insurance, and pension benefits were not covered in the scope of this audit.

The audit did not review the controls related to system access privileges, leave and data integrity of management information in HR Advantage as these topics were the subject of recent internal audits. It also excluded pay deductions.

The audit, which covered the fiscal year 2009-2010, was conducted between April and August 2010.

Audit criteria (**Appendix A**) were derived from the Office of the Comptroller General's Core Management Controls related to "Stewardship" and "Accountability" (also used to assess the corresponding elements of the Federal Government's Management Accountability Framework), the *Directive on Financial Management of Pay Administration,* the *Guideline on Common Financial Management Business Process for Pay Administration and Pay Administration Control Framework Tool* (both issued by the Treasury Board of Canada Secretariat), and have been vetted with management.

Because the processing of pay transactions through the Regional Pay System is solely under the control and responsibility of PWGSC, the audit focused on pre-payroll data entry, review and approval, and post-payroll review, approval and monitoring activities undertaken by Health Canada, for pay and pay-related benefit transactions processed as part of the pay cycle.

The audit approach included a review of documentation and interviews. It also included the review of a random sample of 60 pay transactions, selected across the Department. In order to test the main categories of transactions, this sample included regular pay transactions (20 in total) as well as four other categories of transactions, i.e. remuneration for overtime, retroactive pay, maternity allowance and severance pay (10 transactions per category). Testing of these transactions was aimed at determining whether employee and position information was accurate, documents on file were complete, orderly, and properly approved, and internal controls were effective for ensuring that payroll transactions are accurate, properly approved, and monitored. This review was not aimed at confirming the accuracy of the numbers in the payroll accounts.

Statement of Assurance

In the professional judgement of the Chief Audit Executive, sufficient and appropriate procedures were performed and evidence gathered to support the accuracy of the audit conclusion. The audit findings and conclusion are based on a comparison of the conditions that existed as of the date of the audit, against established criteria that were agreed upon with management. Further, the evidence was gathered in accordance with the *Internal Auditing Standards for the Government of Canada* and the *International Standards for the Professional Practice of Internal Auditing*.

Findings, Recommendations and Management Responses

Health Canada's Management Control Framework for Payroll

Health Canada's Management Control Framework for pay administration involves multiple stakeholders and systems, as well as numerous regulations, policies and rules. In order to successfully conduct pay administration, departments must rely on timely communications between Cost Centre Managers, Finance and Human Resource services. They must also rely on built-in system controls, as well as the experience and knowledge of pay administration staff to ensure timely and accurate processing of information. **Appendix B** provides an overview of the Pay Process Administration Model.

In response to six recommendations made by the Audit and Accountability Bureau in the *Audit of Overtime* (2007), a number of framework improvements were implemented by management. The improvements include the documentation of payroll processes and controls by the CFOB, and the development by the CSB of the *Standard Operating Procedures for Overtime Administration*, that became effective April 1, 2008. These procedures provide direction on issues such as pre-authorization and commitment of funds for overtime, standard calculation templates and forms, and accuracy of position data.

Pay Administration Process and Structure

Audit Criterion
A clear and effective payroll administration process has been documented. The pay administration organizational structure is up-to-date and widely communicated.

Payroll administration processes are designed to ensure that pay operations are conducted in a timely and orderly manner in order to ensure the accuracy of salary expenditures. These processes consist of multiple activities, some specific to Health Canada and others that are government-wide due to common systems requirements.

The Department's processes, policies, and directives can be found on the departmental intranet, with links to information located in other government Departments, when required. Information concerning roles and responsibilities, policies and directives, work instructions, forms and templates are available and easily accessible in the Human Resource's section of Health Canada's Intranet.

The CSB's Compensation Policy Centre has recently developed a comprehensive suite of standard operating procedures (also available on the intranet) that provides guidance to compensation advisors. In addition, increased emphasis has recently been placed on monitoring compensation activities with the introduction of a new "Monitoring Officer" position and the development of "*Health Canada Compensation Monitoring*

Framework". Furthermore, the Department's payroll administration processes have recently been documented by the CFOB's Internal Control Division to assist with the auditable financial statement initiative and to support the *Statement of Management Responsibilities including Internal Control Over Financial Reporting.*

The pay administration organizational structure is intended to ensure that roles and responsibilities are clearly defined and understood. Pay administration for the Department's eight regions, including the NCR, is conducted by seven Compensation Units (payroll operations of the Northern Region are provided by the Ontario Region). CSB is responsible for the Compensation Unit in the NCR and Regions and Programs Branch is responsible for the Compensation Units in the other regions.

The audit reviewed the pay administration processes across all regions and the organizational structure of all compensation units. It was determined that the payroll delivery model and organizational structure within compensation units is consistent across all regions, with the exception of the Quebec Region that conducts pay administration through a shared service agreement with PWGSC. In all other regions, payroll operations are conducted in-house.

The audit determined that pay administration processes and activities are generally well documented, understood and applied consistently, across all regions. In addition, the pay administration organizational structure is up-to-date and communicated across Health Canada.

Specimen Signature Documents

Audit Criterion
Specimen signature documents are used to validate that the originator of pay-related transaction requests has the appropriate Financial Signing Authority.

According to the TBS' *Directive on Financial Management of Pay Administration* and the *Guideline on Common Financial Management Business Process for Pay Administration*, FAA Section 34 transaction certification responsibilities are to be shared between Cost Centre Managers, Compensation Advisors and Compensation Verifiers and at different stages of the pay administration cycle.

Pursuant to FAA Section 34, pay actions leading to changes in salary payments must be approved by Cost Centre Managers. During the audit, it was determined that pay transactions are approved by authorized Cost Centre Managers.

Health Canada's *Delegation of Financial Signing Authority* document delegates authority to Human Resource Compensation Advisors to approve pay-related transactions under FAA Section 34. The delegation document states that this authority requires approval by

the appropriate Assistant Deputy Head or Regional Director General. In addition, the *Standard Operating Procedures for Pay Verification and Payment Release* assigns signing authority under FAA Section 34 to Compensation Verifiers.

In the British Columbia, Alberta, and Atlantic Regions, Compensation Verifiers are required to complete training prior to obtaining FAA Section 34 authority. The Health Canada Specimen Signature Card Database is used to approve the authority delegated to Compensation Verifiers and to create specimen signature documents for those individuals.

In the other regions, Compensation Verifiers are not required to complete training prior to obtaining FAA Section 34 authority. The specimen signature database is not used, nor is there any record documenting that the authority given to Compensation Verifiers has been approved by the appropriate Assistant Deputy Minister or Regional Director General.

It should be noted that the use of Compensation Verifiers is a key control for the segregation of duties. However, this control is not being adequately met.

Recommendation No. 1

It is recommended that the Assistant Deputy Minister of the Corporate Services Branch, and the Assistant Deputy Minister of the Regions and Programs Branch, ensure that the authority to approve requisitions for pay-related transactions under Section 34 of the Financial Administration Act has been formally delegated to individual Compensation Verifiers as outlined in Health Canada's Delegation of Financial Signing Authority document, and, specimen signatures are created and recorded in Health Canada's Specimen Signature Database.

Management Response

Management agrees with the recommendation.

CSB/HRSD, Compensation Policy Centre will communicate with all regions and request that the Compensation Verifiers at Health Canada undergo the Delegation of Financial Signing Authority training under Section 34 of the *Financial Administration Act*. This latter authority will be recorded in Health Canada's *Delegation of Financial Signing Authority* document. The Compensation Verifiers will also be required to complete specimen signature cards which will then be recorded in Health Canada's Specimen Signature Database.

Financial Administration Act (FAA) Section 33 Payment Authority

Audit Criterion

Officers with FAA Section 33 payment authority must ensure that an adequate process is in place to verify accounts under Section 34 of the FAA and that the process is being properly followed. No person exercises Section 33 of the FAA for a payment from which he or she can personally benefit, either directly, or indirectly.

Approval of pay transactions under FAA Section 33 is conducted through the Regional Pay System by Financial Officers reporting to Regional Senior Financial Officers in the Regions and to CFOB's Financial Operations Directorate in the NCR.

Within the Regional Pay System, FAA Section 33 approval is performed for each pay cycle. Pay transactions are approved in batches of transactions specific to pay lists. The approval screen contains information such as a batch number, a batch total, a batch date, pay lists, and other batch information. No detailed information or support documentation is provided to the Financial Officer. Therefore the system ensures that financial officers cannot personally benefit directly or indirectly from the authorization of the payments. Once the Financial Officer has approved a pay transaction batch, the electronic file is released and sent electronically to PWGSC for processing and release of salary payments.

Although the PWGSC Receiver General's Regional Pay System does not provide detailed transaction information with regard to FAA Section 33 certification, Health Canada's Pay Administration Framework contains mitigating controls that are designed to ensure that pay actions are accurate and duly approved under FAA Section 34 by Cost Centre Managers and compensation advisors during the pre-payroll phase of the payroll cycle.

FAA Section 33 Quality Control Reviews

Audit Criterion
The Chief Financial Officer Branch conducts post-payment FAA Section 33 quality control reviews of pay transactions to ensure the consistent application and adequacy of FAA Section 34.

Health Canada's *Account Verification Procedures* are silent on FAA Section 33 certification dealing with salary payments. CFOB's current post-payment Section 33 quality control reviews of pay transactions relies mainly on the monthly Management Variance Reporting exercise and the monitoring that CSB conducts over its processes, procedures, practices and controls in place for the delivery of compensation services, in line with its *Human Resources Compensation Monitoring Framework.* This said, this framework requires enhancements to strengthen post-payment quality practices related to the adequacy of FAA Section 34.

Recommendation No. 2

It is recommended that the Chief Financial Officer, in cooperation with the Assistant Deputy Minister of the Corporate Services Branch develop and implement post-payroll quality assurance procedures to support FAA Section 33 requirements.

Management Response

Management agrees with the recommendation.

Health Canada's Corporate Services Branch (CSB) has developed the *Human Resource Compensation Monitoring Framework* which provides a means for assessing whether or not the processes, procedures, practices, and controls are in place for the delivery of compensation services. The monitoring framework includes an assessment of the application of collective agreements, terms and conditions of employment provisions, and compliance with the acts, regulations, authorities, policies, directives, and guidelines under which compensation operates. This Framework also includes a post payment quality assurance review of samples of pay transactions. As such, CFOB has been and will continue to work with CSB to strengthen the current Framework by ensuring that it incorporates CFOB's requirements related to FAA Section 33.

Distribution of Cheques and Direct Deposit Payments

Audit criterion
There are adequate controls over the custody and distribution of cheques and direct deposit statements.

Health Canada employees generally obtain their pay information through PWGSC's Compensation Web Applications, and receive their pay by way of direct deposit. Banking information is captured by Compensation Advisors when creating or updating pay accounts and employees access these applications through a unique and confidential password. Pay statements are produced for the few employees that are not registered to the application service and those that are paid by cheque, i.e. student pay cheques, emergency replacement cheques, etc.

Pay statements and cheques are sent to compensation advisors that sort them and then send them to Finance and Treasury services officers with no authority or role in staffing, classification, and pay administration for distribution to employees.

The CFOB's Internal Control Division developed a monitoring strategy in December 2009 that provides for the review of the effectiveness of controls over cheque distribution on a cyclical basis in all regions. As per current plans, in the future, cheque distribution controls will be monitored by the Internal Control Division.

The audit found that the controls and procedures over the custody and distribution of cheques and direct deposit statements are effective.

Personnel File Documentation

Audit Criterion
Clear policies and guidelines exist to ensure information and records are maintained in accordance with laws and regulations.

The audit found that compensation units across the Department generally maintain appropriate file documentation and records, in accordance with the direction provided by Library and Archives Canada, Treasury Board of Canada's policies, and associated guidelines and directives, Health Canada's standard operating procedures and PWGSC guidelines. However it was found that file organization varied from region to region and there is no departmental standards on personnel file organization. There is no imminent risk to Health Canada associated with this issue; however, consistent file documentation is considered a best practice.

Effectiveness of Controls over Payroll Transaction Processing

Pay Transactions and Information

Audit Criteria
Pay transactions are recorded accurately and in a timely manner. The accuracy of both employee and position information is validated.

The audit also included the review of a random sample of 60 pay transactions, selected across the Department (see **Appendix C**). Based on the review of this sample, it was found that payments were accurate and timely.

The employee and position information was also reviewed using the same sample. The employee information reviewed included the name, address, Personal Record Identifier number, continuous employment information, standard benefits letters if applicable and the Personal History Card. The position information reviewed included the letters of offer, approved appointment to acting positions, position numbers, position classification and salary rates and data used for selected pay transactions. Personal and position information was found to be accurate in the employee files tested. However, the audit identified that letters of offer had been signed after the employment start date in 26 cases out of the 60 files that were reviewed.

Refer to **Appendix C** for a summary of test results found during the audit testing.

Recommendation No. 3

It is recommended that the Assistant Deputy Minister of Corporate Services Branch, in collaboration with Assistant Deputy Ministers of Program Branches, ensure that letters of offer are signed by both Cost Centre Managers and employees prior to employment start dates.

Management Response

Management agrees with the recommendation.

The Corporate Services Branch (CSB), through its Staffing Policy Centre, will communicate with all stakeholders at Health Canada to ensure that prior to being sent to the Compensation Units, the letters of offer are signed by both the Cost Centre Manager and the employee. They must also be dated prior to, or effective on the date of appointment. CSB's Compensation Policy Centre will instruct all Health Canada Compensation Advisors that payment is not to be issued until the letter of offer is duly signed and dated by the CCM and employee.

Pre-Payroll - FAA Section 34 Certification of Pay Transactions

Audit Criterion
Cost Centre Managers complete pre-payroll certification procedures under Section 34 of the FAA to ensure that: payee is entitled to or eligible for the payment; payment conforms to the relevant contract or agreement terms and conditions; the transaction complies with all relevant statutes, regulations, Orders in Council and Treasury Board of Canada policies, and verification procedures have been performed.

During the pre-payroll phase, the delegation of FAA Section 34 authority is shared between the Cost Center Manager and the Compensation Advisors/Compensation Verifiers for pay input purposes. By approving the appropriate documents during the pre-payroll phase, the Cost Centre Manager certifies that the employee's pay is in accordance with the collective agreement. The Cost Centre Manager is required to conduct the second part of the FAA Section 34 expenditure approval process (described on page 12 of this report) during the post-payroll phase of the pay cycle.

The *Standard Operating Procedures for Pay Verification and Payment Release* requires Compensation Advisors to use a standard pay authorization stamp. The use of the stamp is mandatory under this SOP and serves as evidence of approval by the Compensation Verifier under FAA Section 34 and of the work completed by Compensation Advisors. During the audit, it was found that the use of the standard certification stamp was not consistent from file to file, and from region to region. The auditors are of the view that the standard certification stamp should be used consistently on all files.

The audit has concluded that Cost Centre Managers' pre-payroll certification and verification procedures pursuant to FAA Section 34 are in compliance with requirements and effective.

Monitoring of Trends and Unusual Pay Transactions

Audit Criterion
Reports are generated from HR Advantage system and pay systems in order to review and analyze trends and unusual pay transactions. Monitoring processes are in place for pay transactions.

Currently, monitoring at the regional level consists of the review of Regional Pay System transaction error reports, and HR Advantage leave reports. There are no reports produced on a regular basis to review trends or unusual pay transactions at the regional level.

CSB's Human Resources Services Directorate has recently introduced the "*Health Canada Compensation Monitoring Framework*". The Framework describes the roles and responsibilities of the Compensation Policy Centre in monitoring pay activities and provides review criteria to assess the compliance of pay operations and activities against policies, terms and conditions of employment, approval controls, and documentation requirements. The Framework states that activities will be monitored through ongoing, recurring, and on site reviews. As for the regional level, no reports are currently produced at the corporate level on a regular basis to review trends or unusual pay transactions.

The Framework further states that activities to be reviewed may be selected on a random or judgemental basis as required. Although this practice is appropriate, this area of the Framework could be strengthened if the planning of monitoring activities was based on an assessment of risks involved in pay operations. Some components of the Framework such as monitoring tools, on site review documentation and reporting tools, and mechanisms are still under development. Risks should be assessed using a structured approach, including review of results from regional monitoring reviews, tracking of performance indicators, etc. The review of trends and unusual transactions would serve as a key process to identify risk areas.

It should be noted that since the implementation of the Framework in November 2009, the Compensation Policy Centre conducted one regional review, which included 58 files.

Recommendation No. 4

It is recommended that the Assistant Deputy Minister of Corporate Services Branch, in coordination with the Assistant Deputy Minister, Regions and Programs Branch, develop and implement the use of monitoring reports to review trends or unusual pay

transactions, both at the regional and corporate levels, and ensure that the planning of monitoring activities by the Compensation Policy Centre follows a risk-based approach.

Management Response

Management agrees with the recommendation.

CSB/HRSD, Compensation Policy Centre will consult with RAPB in order to modify the current Health Canada Compensation Monitoring Framework to ensure that it includes the monitoring of more high risk pay transactions.

Review of Payroll Registers

Audit Criterion
Payroll registers and other output reports are verified to ensure that payments are accurate.

Payroll registers are available on screen for review by compensation advisors approximately three to five days before the release of salary payments. Compensation Advisors access the payroll registers for their assigned pay lists and review individual salary payments against pay action documentation processed for the pay cycle under review. The review of payroll registers is the final opportunity for compensation advisors to confirm the accuracy of payroll transactions.

The audit found the controls and procedures in place to ensure the accuracy of payroll registers and other output reports to be effective.

Post-Payroll – Review of Pay Expenditures

Audit Criterion
Cost Centre Managers complete post-payroll FAA Section 34 verification of pay expenditures and verify that the amount paid is accurate and is associated with the correct employee in the correct period.

The *Guideline on Common Financial Management Business Process for Pay Administration* states that Cost Centre Managers' post-payroll responsibilities include the performance of the second part of FAA Section 34 certification. Cost Center managers must verify that pay expenses include all entitled employees for the correct period, are coded correctly, and are reasonable.

Health Canada's Budget Management Framework requires Cost Centre Managers to review actual Salary and Wages expenditures on a monthly basis as part of the

Management Variance Reporting exercise. These corresponding reports are then subjected to an escalating review and challenge function by the superior Manager, Branch and Regional Senior Financial Officers, and Departmental Resource Management Directorate receiving appropriate approvals, acknowledgements, and attestations at each level.

The Management Variance Reporting process requires Cost Centre Managers to sign an attestation to the effect that: "...*year to date expenditures, commitments, and forecast to year end have been reviewed and that the total annual forecast accurately represents the financial situation*…" This attestation provides assurance on the overall financial situation of a cost centre, but it is not specific to certification of salary expenditures under FAA Section 34.

The process does not require Cost Centre Managers to specifically document and attest that the second part of FAA Section 34 certification for pay transactions has been properly completed. Evidence of the performance of the second part of FAA Section 34 certification must be on file, and available for review during the conduct of the post-payroll FAA Section 33 quality assurance process.

Recommendation No. 5

It is recommended that the Chief Financial Officer develop and implement a process to ensure that the second part of the FAA Section 34 payroll certification conducted by Cost Centre Managers, is evidenced in writing. Documentation should consist of a cost centre manager attestation that the salary expenditures are reasonable, correspond to the correct employees for the correct period, and that the correct financial coding has been applied.

Management Response

Management agrees with the recommendation.

CFOB will amend the existing MVR process to include an attestation in support of the second part of FAA Section 34 payroll certification.

Conclusion

Health Canada has a sound Management Control Framework in place for the administration of payroll, which supports the integrity of the Department's payroll transactions. Pay administration processes are established and roles and responsibilities of the various stakeholders are well documented.

The audit also included the review of a random sample of 60 pay transactions, selected across the Department. aimed at confirming that controls work as intended. In order to test the main categories of transactions, this sample included regular pay transactions (20 in total) as well as 4 other categories of transactions, i.e. compensation for overtime, retroactive pay, maternity allowance and severance pay (10 transactions per category). For this sample, the audit found that employee and position information was generally accurate, documents on file were complete, orderly, and properly approved, and internal controls were effective for ensuring that payroll transactions are accurate, properly approved, and monitored. This review was not aimed at confirming the accuracy of the figures in the payroll accounts.

In order to further strengthen overall stewardship and accountability, and improve the management of Health Canada's pay administration processes, recommendations were made in the following areas:

- Certification and Verification of pay transactions under Section 34 and Section 33 of the *Financial Administration Act*;
- Monitoring; and
- Timely preparation and signing of letters of offer.

Appendix A – Lines of Enquiry and Audit Criteria

Line of Enquiry No. 1: Internal controls for recording, maintaining, and managing payroll transactions

Audit Criteria
- A clear and effective payroll administration process has been documented.
- The pay administration organizational structure is up-to-date and widely communicated.
- Specimen signature documents are used to validate that the originator of pay-related transaction requests has the appropriate Financial Signing Authority.
- Officers with FAA Section 33 payment authority must ensure that an adequate process is in place to verify accounts under Section 34 of the FAA and that the process is being properly followed. No person exercises Section 33 of the FAA for a payment from which he or she can personally benefit, either directly or indirectly.
- There are adequate controls over the custody and distribution of cheques and direct deposit payment statements (including validation that the person(s) responsible does not have delegated authority in the areas of staffing, classification, compensation administration, staffing transactions, or pay input transactions).
- Clear policies and guidelines exist to ensure information and records are maintained in accordance with laws and regulations.

Line of Enquiry No. 2: Internal controls for ensuring that payroll transactions are accurate, properly approved, and monitored

Audit Criteria
- Pay transactions are recorded accurately and in a timely manner. The accuracy of both employee and position information is validated.
- Cost Centre Managers complete pre-payroll certification under Section 34 of the FAA to ensure that: payee is entitled to or eligible for the payment; payment conforms to the relevant contract or agreement terms and conditions; the transaction complies with all relevant statutes, regulations, Orders in Council and Treasury Board of Canada policies, and verification procedures have been performed.
- Reports are generated from HR Advantage system and pay systems in order to review and analyze trends and unusual pay transactions. Monitoring processes are in place for pay transactions.
- Payroll registers and other output reports are verified to ensure that payments reflect pay input transactions.
- The Chief Financial Officer Branch conducts post-payment quality control reviews of pay transactions periodically to ensure the consistent application of

FAA Section 34 verification and the adequacy of FAA Section 34 account verification.

- Cost Centre Managers complete post-payroll FAA Section 34 verification of pay expenditures and verify that the amount paid is accurate and is associated with the correct employee in the correct period.

Appendix B – Overview of the Pay Administration Processes

Source: Treasury Board of Canada Secretariat's *Pay Administration Control Framework Tool*
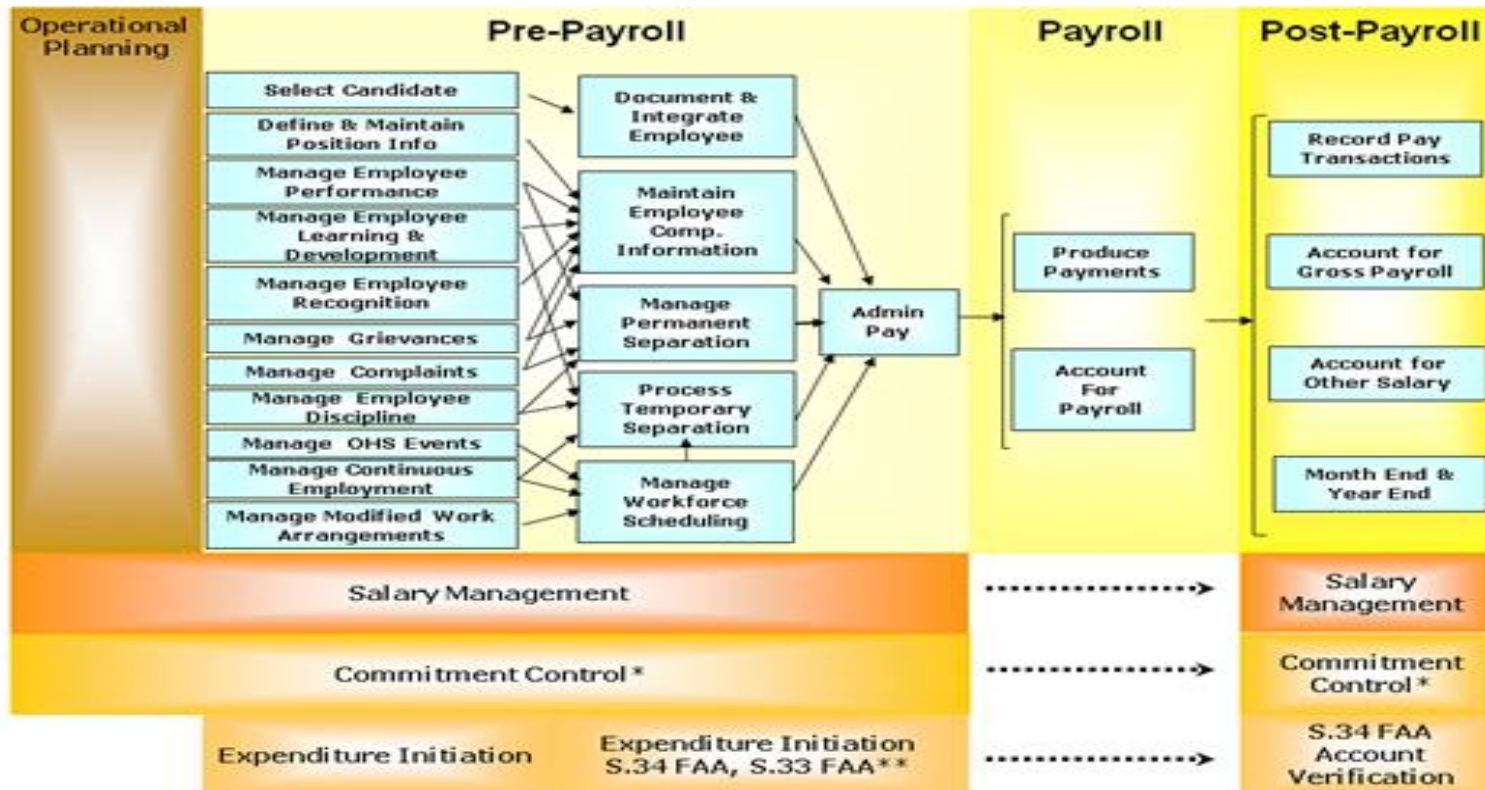
Appendix C – Review of Pay Transactions

Sampling Methodology

One of the objectives of this audit is to assess whether the controls are adequate and effective to ensure that payroll transactions are accurate, properly approved, and recorded. In order to assess this objective, pay transactions were selected to be part of the audit sample based on the following criteria:

A. Sixty (60) transactions made up of six different types of pay transactions (10 transactions per type) across all regions, were selected at random.

1. Indeterminate full time (10 transactions)
2. Indeterminate part time Term Seasonal and casual (10 transactions)
3. Remuneration for overtime (10 transactions)
4. Retroactive pay (10 transactions)
5. Maternity allowance (10 transactions)
6. Severance pay (10 transactions)

B. For these six types of pay transactions, the 2009-10 salary expenditures are as follows:

Value of 2009-10 Salary Expenditures for Sample Population								
Region	Full Time	Part time/ Casual	Overtime	Retro Pay	Maternity Allowance	Severance Pay	Total by Region	% of Total
Atlantic	18,243	2,498	155	468	452	194	22,010	3.0%
Quebec	28,504	2,524	511	754	440	609	33,342	4.3%
Ontario/Northern	34,437	7,986	5,698	1,200	767	647	50,735	6.7%
Manitoba and Saskatchewan	44,071	10,830	7,051	1,413	613	816	64,794	8.5%
Alberta	25,173	5,567	2,034	802	596	437	34,609	4.5%
British Columbia	22,751	3,755	1,090	639	576	429	29,240	4.0%
NCR	464,082	30,185	5,182	8,772	11,311	5,699	525,231	69.0%
Total	**637,261**	**63,345**	**21,721**	**14,048**	**14,755**	**8,831**	**759,961**	100.0%

C. The number of transactions selected by region for the audit sample was prorated based on the relative value of regional pay expenditures:

Number of Transactions Selected by Region for the Audit Sample								
Region	Full Time	Part time / Casual	Overtime	Retro Pay	Maternity Allowance	Severance Pay	Total	% of Total
Atlantic	1	1		1			3	5.0%
Quebec	1	1		1		1	4	6.7%
Ontario/Northern	1	1	3	1	1	1	8	13.3%
Manitoba and Saskatchewan	2	2	3	1	1	1	10	16.7%
Alberta	1	1	1	1		1	5	8.3%
British Columbia	1	1	1				3	5.0%
NCR	3	3	2	5	8	6	27	45.0%
Total	**10**	**10**	**10**	**10**	**10**	**10**	**60**	100.0%

Results

No significant errors were detected in the following areas:
- Accuracy of position information
- Accuracy of employee information
- Accuracy of financial coding
- Accuracy of base salary rate used to calculate payment
- Accuracy of payments for indeterminate full time pay
- Accuracy of payments for indeterminate part time, casual pay
- Accuracy of maternity allowances paid
- Accuracy of severance payments
- Accuracy of retroactive pay

Errors noted are summarized below:
- Overpayment of overtime (1 case) (*)
- Bilingual bonus paid in error (1 case) (*)
- Copy of letter of offer on file not signed by the Cost Centre Manager (4 cases)
- Copy of letter of offer on file not signed by employee (2 cases)
- Letter of offer dated after start date (26 cases): 22 cases for employees already in the Public Service (promotion, deployment, transfer-in, etc.) and 4 cases for new employees in the Federal Public Service
- Pay transaction stamp not found on file (23 cases)
- Original documentation not in file (1 case)

(*) Recovery procedures on these errors have been initiated by the Corporate Services Branch's Compensation Policy Centre.