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Internal Audit Services Branch

# Audit of Workforce Adjustment

November 2013

*As of July 2013, the official names of the minister and department are the Minister of Employment and Social Development and Minister for Multiculturalism, and the Department of Employment and Social Development Canada (ESDC).*

*The name of the previous department, Human Resources and Skills Development Canada (HRSDC), is used in this report in a historical context only.*

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## ***EXECUTIVE SUMMARY***

Employment and Social Development Canada (ESDC) has been operating in a restraint environment for several years as a result of its own and government-wide initiatives to review its operating and program spending and modernize government. The projected cumulative impact of these initiatives is a reduction of departmental human resources that cannot be achieved by relying strictly on attrition. As a result, ESDC is currently operating in a workforce adjustment (WFA) situation. WFA is a situation that occurs when a deputy head decides that the services of one or more indeterminate employees will not be required beyond a specific date due to: lack of work; discontinuance of a function; relocation of a work unit to a place where the employee does not wish to relocate; or work or function transfer outside of the public service.

### ***Audit Objective***

The objective of this audit was to provide assurance that the Department is implementing WFA in compliance with established policies and directives.

### ***Summary of Key Findings***

- The Department developed and implemented an adequate governance framework for WFA.
- The Human Resources Services Branch (HRSB) provided satisfactory functional advice, guidance and support for the management of WFA.
- There was an acceptable rate of compliance with the requirements of the WFA directive and applicable policies.
- Clear rationales in support of WFA decisions were not always on file for WFA actions examined.
- Position numbers that should have been abolished in the Corporate Management System (CMS) following completion of WFA actions had not been abolished at the time of completing the file review. Several positions had not been vacated.
- Monitoring and reporting mechanisms are in place to support the implementation of WFA.

### ***Audit Conclusion***

The audit concluded that the Department's implementation of WFA was compliant with the WFA Directive and applicable policies and that monitoring and reporting on WFA was generally satisfactory. The audit also identified areas for improvement such as record keeping practices and updates to CMS.

### ***Summary of Recommendations***

The Assistant Deputy Minister (ADM), HRSB should:

- Verify that all position numbers that should have been abolished in CMS are abolished.
- Investigate positions that should have been vacated but are not and effect appropriate corrections.

## **1.0 BACKGROUND**

### **1.1 Context**

ESDC has been operating in a restraint environment for several years as a result of government-wide initiatives such as the Administrative Services Review, the Strategic Review, and the Deficit Reduction Action Plan, as well as its own large, complex, horizontal change initiatives.<sup>1</sup> The projected cumulative impact of these initiatives from 2011–2012 to 2015–2016 is a reduction of departmental human resources that cannot be achieved by relying strictly on attrition. As a result, ESDC is currently operating in a WFA situation.

WFA<sup>2</sup> is a situation that occurs when a deputy head decides that the services of one or more indeterminate employees will not be required beyond a specific date due to: lack of work; discontinuance of a function; relocation of a work unit to a place where the employee does not wish to relocate; or work or function transfer outside of the public service. The National Joint Council's (NJC) WFA Directive was co-developed by the employer and bargaining agents to govern WFA situations. Its key objective is "to maximize employment opportunities for indeterminate employees affected by work force adjustment situations, primarily through ensuring that, wherever possible, alternative employment opportunities are provided to them."<sup>3</sup>

### **1.2 Scope and Strategy**

The audit examined ESDC's activities to manage WFA from a departmental perspective. All WFA actions that occurred between April 2011 and March 2013 were included in the scope of the audit.

The audit did not examine:

- The planning strategy to identify resource reduction targets (budgetary decisions beyond ESDC's control);
- Staffing decisions relating to Selection of Employees for Retention or Layoff (SERLO) processes (expected to be part of the Public Service Employment Act audit);
- Impact of WFA on ESDC's operations and ability to deliver programs and services to clients (premature);
- Accounting, recording and financial statement disclosure of WFA reductions (part of the Public Accounts Audit); and
- Executive positions subject to WFA (due to their low volume, and considering the fact that they were managed centrally by HRSB).

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<sup>1</sup> These initiatives include: the Service Canada Business Transformation, Employment Insurance and Old Age Security Modernization, the Enabling Services Renewal Program, and the transfer to Shared Services Canada

<sup>2</sup> Definition from the National Joint Council Workforce Adjustment Directive

<sup>3</sup> National Joint Council Workforce Adjustment Directive

### **1.3 Audit Objective**

The audit objective was to provide assurance that the Department is implementing WFA in compliance with established policies and directives.

### **1.4 Methodology**

The following audit techniques were used:

- Documentation review of applicable policies, directives and processes surrounding WFA.
- Interviews with HRSB management and staff supporting WFA processes, as well as other stakeholders as applicable.
- File review of a stratified random sample of 172 WFA actions to confirm whether the Department was in compliance with WFA. Because the WFA Directive provides for different entitlements for each action, the sample included four sub-populations of WFA actions:
  - Affected – employees who have been informed that their services may no longer be required.
  - Surplus/Guarantee of a Reasonable Job Offer (GRJO) – employees who have been informed that their services will no longer be required, but provided with a GRJO.
  - Opting – employees who have been informed that their services will no longer be required, but have no guarantee of a reasonable job offer.
  - Relocation of work unit – employees who have been told that their work unit will be relocated and have six months to decide if they want to relocate.



## **2.0 AUDIT FINDINGS**

### **2.1 Governance Framework is Adequate**

#### Governance Framework

HRSB developed a wide variety of documentation and training materials to support the Department's implementation of WFA. These materials include videos, presentations, flow charts, employee and manager toolkits, and lists of questions and answers. The materials clarified the WFA process, and communicated roles, responsibilities and accountabilities department-wide. To ensure consistent treatment of employees, HRSB also created checklists for what should be done and kept on file in each type of WFA situation, and standard templates for use in advising employees of their WFA status throughout the process. The use of the checklists was encouraged, but not mandatory.

The audit team's review of the documentation and materials produced by HRSB found them to be internally consistent, understandable, comprehensive and compliant with the information provided in the NJC Directive on WFA.

#### Functional Advice, Guidance and Support

HRSB assigned case managers to departmental managers and employees. The case managers were responsible for advising management on their WFA responsibilities and authorities, and for counseling employees about their individual situations. The audit team's interviews with managers responsible for implementing WFA found that a majority believed they were well-supported by HRSB in discharging their responsibilities under WFA, and were satisfied with the functional advice and guidance provided.

A minority of managers stated that timely advice was not always available and that the level and quality of support was variable, noting that they had to either research and develop their own understanding of how to proceed, or to validate the advice they were being given with independent third parties.

Finally, a number of the executives interviewed by the audit team noted that HRSB's own employees were, themselves, subject to WFA while they were advising the rest of the Department. Several observed that including HRSB in the early waves of the WFA process may have been counterproductive.

### **2.2 Compliance with Requirements is Adequate**

#### Compliance with Requirements

The audit team conducted a file review that included an assessment of whether the WFA actions taken with respect to the Department's employees were compliant with the WFA Directive and applicable policies.

The results of the file review showed that the Department operated at an acceptable rate<sup>4</sup> of compliance with the processes and dates stipulated in the WFA Directive. Notifications of WFA status were provided to employees in writing, signed by the appropriate sub-delegated executive, contained accurate deadlines, and were responded to within the stated deadlines by employees. We only found one case where an employee made a decision within the deadline but asked for it to be changed after the deadline (the request was granted on compassionate grounds). The instances of non-compliance observed in the file review stemmed from interpretation errors made by case managers, and from management accepting decisions made verbally by employees and failing to subsequently secure written confirmation.

The WFA Directive requires that employees in affected<sup>5</sup> status be reviewed annually by their departments, or earlier, from the date of initial notification of affected status. Departments must also determine whether the employee will remain on affected status or not, and notify the affected employees, in writing, within five working days of the decision. We observed two files out of 73 that did not respect this deadline. The Department is already taking action on this. The Corporate Management Committee (CMC) agreed, on June 12th, 2013 that the status of all remaining affected employees will be reviewed within three months.

#### *Rationales in support of WFA decisions*

Most of the WFA actions reviewed by the audit team contain a clear rationale in support of the decision documented in the employee's file. However some files were missing a variety of documentation that was necessary to enable the audit team either to:

- Understand why a decision had been made. The audit team considered this a low risk omission; or
- Unambiguously determine whether or not specific provisions of the WFA Directive or related policies had been applied to the employee in question. The audit team considered this a medium risk omission.

Most of the omissions were of a low risk nature and were concentrated in the files of affected employees – employees who have been notified that their services may no longer be required, but who are not in an official WFA situation. These were files that did not contain all the information required to fully explain the decision for rescinding the employee's affected status.

Medium risk omissions occurred in two files: in the opting file, the letter placing the employee in an official WFA situation as an opting employee was not on file; in the relocation file, there was no evidence on file that management provided the WFA options available to the employee.

As noted earlier, HRSB developed checklists for maintaining documentation in WFA files, but using them by case managers was not mandatory.

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<sup>4</sup> No process can be 100% error-free. Our sample was based on the assumption that an acceptable error (non-compliance) rate is 5%. The results of file testing showed a rate of 3% non-compliance. This is within the 95% confidence interval for our sample size, which means that there is statistical support for the assertion that the overall non-compliance rate in the total population of WFA actions is 5%

<sup>5</sup> Employees who have been notified that their services may no longer be required. Such employees are not in an official WFA situation

Several external agencies have expressed interest in conducting audit work on the implementation of WFA. It would therefore be advisable for HRSB to consider consolidating all relevant documentation pertaining to each employee's WFA situation into the employee's WFA file and making the use of its checklists mandatory in future WFA actions.

#### Updates to CMS

When an employee will not be required beyond a specific date due to a lack of work or discontinuance of a function, there should be a mechanism in place to ensure that each position that has been vacated following completion of the WFA action is abolished in the Department's CMS.

The audit sample included 71 files in which an employee's services were no longer required due to a lack of work or discontinuance of a function. The audit team noted that for 35 of these files (49%), the position number was not abolished in CMS. Furthermore, in four of these 35 files (11%), the position that should have been abolished in CMS was occupied. In these cases, the position was either occupied by another employee or an employee had been deployed to another responsibility centre with the same position number.

During the reporting phase of the audit, the audit team was informed that HRSB will investigate why positions were not abolished in CMS when a mechanism to do so has been established.

### **Recommendation**

- 1) It is recommended that the ADM, HRSB:
  - Verify that all position numbers that should have been abolished in CMS are abolished.
  - Investigate positions that should have been vacated but are not and effect appropriate corrections.

### **Management Response**

HRSB is in agreement with the recommendation, and will conduct a review to ensure that all surplus and opting positions have been abolished or flagged for abolishment in CMS. HRSB will also review and update its current process in regards to how surplus and opting positions are identified for deletion and ensure that positions are submitted to classification for deletion in a timely fashion.

## **2.3 Monitoring and Reporting are Adequate**

### **Monitoring and Reporting Mechanisms**

There was appropriate internal monitoring and external reporting in support of the implementation of WFA.

Interviews within HRSB indicated that:

- Individual cases were tracked using spread sheets;
- The Chief Financial Officer Branch tracked the financial impacts of WFA – HRSB provided it with input but did not see the results;
- There was regular reporting to the Portfolio Management Board (PMB) and the CMC, as well as to the unions and central agencies.

A review of PMB minutes provided evidence of its involvement in the Department's WFA strategies and plans, and in monitoring the activities undertaken by HRSB to support the roll-out of WFA in 2011. The evidence of PMB's ongoing monitoring of the progress and status of WFA tails off in mid-2012 (calendar year).

A review of CMC minutes and the presentations made to it show that CMC was actively monitoring WFA in ESDC throughout 2012 and 2013. Monitoring was oriented to understanding both the current status of WFA, and to assessing emerging issues and the anticipated evolution of the WFA process in the Department. Recommendations were made to CMC to address the WFA issues brought to its attention.

The audit team was informed by HRSB that there was regular reporting to the Treasury Board Secretariat and other central agencies. HRSB provided examples of the reports it was providing. These included a Labour Force Activity Report provided quarterly, and a WFA Snapshot Report provided bi-weekly in 2012 and the first part of 2013. As well, as required under the WFA Directive, official notification was provided to the Office of the Chief Human Resources Officer for any new announcements of any WFA situation which was likely to involve six or more indeterminate employees.

### **3.0 CONCLUSION**

The audit concluded that the Department's implementation of WFA was compliant with the WFA Directive and applicable policies and that monitoring and reporting on WFA was generally satisfactory. The audit also identified areas for improvement such as record keeping practices and updates to CMS.

### **4.0 STATEMENT OF ASSURANCE**

In our professional judgement, sufficient and appropriate audit procedures were performed and evidence gathered to support the accuracy of the conclusions reached and contained in this report. The conclusions were based on observations and analyses at the time of our audit. The conclusions are applicable only for the Audit of WFA and the WFA actions carried out between April 2011 and March 2013. 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*.

## ***APPENDIX A: Glossary***

<b>ADM</b>	Assistant Deputy Minister
<b>CODC</b>	Centre of Organizational Design and Classification
<b>CMC</b>	Corporate Management Committee
<b>CMS</b>	Corporate Management System
<b>ESDC</b>	Employment and Social Development Canada
<b>GRJO</b>	Guarantee of a Reasonable Job Offer
<b>HRSB</b>	Human Resources Services Branch
<b>NBID</b>	National Business Initiatives Division
<b>NJC</b>	National Joint Council
<b>PMB</b>	Portfolio Management Board
<b>SERLO</b>	Selection of Employees for Retention or Layoff
<b>WFA</b>	Workforce Adjustment
<b>WS</b>	Workforce Strategies

**APPENDIX B: Audit Criteria Assessment**

Audit Criteria	Rating
It is expected that the Department:	
Has established and communicated roles, responsibilities and accountabilities department-wide.	●
Has provided functional advice, guidance and support in a timely manner.	●
Complied with applicable WFA policies and directives.	◐
Prepared and documented rationales in support of WFA decisions.	◐
Is monitoring ESDC's progress.	●
Is periodically reporting on departmental performance and taking corrective action.	●

- ☆ = Best practice  
 ● = Sufficiently controlled, low risk exposure  
 ◐ = Controlled but should be strengthened, medium risk exposure  
 ○ = Missing key controls, high risk exposure