Audit of Compensation

October 2001

Audit and Evaluation Branch

Environment Canada Environnement Canada

Canada

Report Clearance Steps

Planning phase completed	December 2000
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Acronyms used in the report

DG	Director General
DND	Department of National Defence
EC	Environment Canada
ELRS	Electronic Leave Reporting System
FAA	Financial Administration Act
HR	Human Resources
HRD	Human Resources Directorate
HRMIS	Human Resources Management Information System
MSR	Management Services Review
NCR	National Capital Region
PWGSC	Public Works and Government Services Canada
SMS	Salary Management System
TB	Treasury Board
TBS	Treasury Board Secretariat
UCS	Universal Classification Standard

Acknowledgments

The Audit and Evaluation Branch Team of Yolande Andrews and Claudette Harrison would like to thank the following individuals for contributing to the audit:

- The Chief of Compensation at Headquarters who provided us with advice and guidance during the audit;

- The compensation chiefs, supervisors, compensation advisors from HRD and in the Regions, and other employees in Finance and Administration involved in the pay/leave/overtime process, who shared with us their experience and gave of their time to provide insight, comments, and documentation crucial to the audit.

We would also like to acknowledge the role of Sheila Brown (from DND) for the testing phase of this audit.

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Executive Summary

Background of the Audit

This audit was included in the Review Branch Plan for Year 2000/2001 and approved by the Departmental Audit and Evaluation Committee (DAEC) at its meeting of April 25, 2000.

The audit was conducted in the context of numerous challenges for the pay community. The ratification of numerous collective agreements, current challenges such as pay equity and upcoming challenges such as UCS all place considerable levels of stress to an operational unit already recognized as overworked.

The purpose of the audit was to assess the compensation units belonging to the National Capital Region, the Ontario Region (including Burlington and Dorval) and the Prairie and Northern Region, and more specifically:

a) the effectiveness and efficiency of the pay, leave and overtime process i.e. accurate and timely paycheques;
b) compliance with central agency and departmental policies, directives and operating procedures related to pay process administration, and compliance with the Terms and Conditions of Employment and collective agreements; and
c) whether the administration of leave and extra duty pay is in compliance with policies, directives, guidelines and collective agreements.

Key Findings

We found that overall the compensation units are delivering the services expected in a timely and accurate fashion. The audit found that the majority of the units are well organized and essential controls are in place. This is despite the lack of a formalized control framework for pay administration. The efficiency of the pay process could be improved by defining clear accountabilities for managers, administrative officers, compensations advisors and financial officers in a formal control framework. Currently, managers rely on compensation advisors to correct any errors or to complete any missing information on the forms such as overtime forms. The manager, administrative assistant and employee should have a good knowledge of their collective agreements in order to minimize the burden on compensation advisors.

The verification of a sample of transactions revealed that globally the transactions are accurate and compliant with the policies and collective agreements. However, a few controls need to be strengthened in the area of Section 33 authorization by finance according to directions given by the Treasury Board *Comptrollership Policy on Pay Administration*. The control measures should be implemented by the Financial Services Directorate. Some improvements are needed in the Downsview compensation unit, namely a stronger support to compensation advisors in terms of guidance and monitoring. Also, an effort should be made in that unit to improve the records management relating to personal files of employees, and personal history cards to ensure that the files are complete and the information is available and well organized. This is a good management practice which is especially important in the current context of turnover of employees.

Although this was not the primary line of inquiry in this audit, the issues of workload and staff turnover was brought to our attention. There is a risk (which has already materialized in several cases) that compensation advisors leave the department for similar positions in another government department where they could work with fewer accounts. This represents a loss for the department in terms of its knowledge base and requires extensive training of new staff. It takes an average of two to three years before a compensation advisor is fully trained.

Recommendations and Management Response

Recommendations:

1. **Under the functional direction of the Director, Classification and Staff Relations and in concert with the Regional Directors of Human Resources, a control framework for pay administration should be prepared, based on the directions given by the Treasury Board *Comptrollership Policy on Pay Administration*. This pay administration framework would define the respective responsibilities of managers, administrative assistants, compensation advisors and financial officers in the pay, leave and overtime processes. Verification of the authorized level of approval for pay transactions should be included in the control framework for pay administration. This control framework will also include the following components of controls and communication:**

    a) **Risk-based controls should be implemented in the compensation units. Also, a post verification of a sample of transactions should be conducted by the supervisor and/or a peer and/or a third person.**

    b) **Authorization of payment by Finance under Section 33 of the FAA should only occur when finance has reasonable assurance that the payee is entitled to or eligible for the payment, the transation is accurate and complies with all relevant statutes, regulations and Treasury Board policies. Finance could verify on a sample basis the source documents pertaining to the transactions to be authorized.**

    c) **An information session and/or package should be prepared by Staff Relations in conjunction with Compensation Services, and communicated to managers and administration staff. Information provided would include collective agreement interpretations, the management and administration of leave and overtime, the proper completion of forms in use, and the application of new compensation related policies.**

2. **Under the functional direction of the Director, Classification and Staff Relations and in concert with the Regional Directors of Human Resources, the workload of compensation advisors should be assessed against appropriate standards (Treasury Board standards, level of activity on the accounts) and an action plan aimed at reducing the risk of experienced staff leaving be prepared.**

3. **Under the functional direction of the Director, Classification and Staff Relations and in concert with the Regional Directors of Human Resources, the training**

needs of compensation advisors should be assessed in terms of new courses and refreshers.

Management Response:

1. The DG, HRD agrees with this recommendation.

Proposed Actions	Time Frame
a) Stop verifying the Overtime Form prior to the request for payment on-line. It will be Manager's responsibility to ensure that the request is in accordance with the relevant collective agreement.	• Inform Managers directly one month prior to the change February 1, 2002. • Reminder two weeks prior to the change March 1, 2002. • To be implemented by March 15, 2002.
Other pay transactions: the regional Chief of Compensation will establish a control mechanism.	Depending on the performance and experience of the Compensation Advisors on a current basis.
b) The Director General Human Resources and the Director General Financial Service will define their respective responsibilities and control measures to ensure that the on-line transactions verification is not duplicated and the Compensation Section will provide to Financial Services all required documents needed for the authorization of some transactions.	February 15, 2002.
c) The Corporate Compensation Unit and/or Corporate Staff Relations Unit will contribute to the development and maintenance of a Compensation Web Site on "Infolane".	Under revision but will be implemented by March 31, 2002.
The Corporate Compensation Unit will inform all employees of the department of important changes to their benefits and of new collective agreements via "Exchange Admin".	On-going basis.

2. The DG, HRD agrees with this recommendation.

Proposed Action	Time Frame
The Treasury Board standards are now 155 to 160 pay accounts per advisor. Some of our regions have an average of 300 pay accounts per advisors. The Recruitment Trainee Program will ensure to reduce the number of accounts by advisors at long term. The MSR Committee is looking into this and will make some propositions.	Propositions to be presented by the MSR Committee in January 2002.

3. The DG, HRD agrees with this recommendation.

Proposed Actions	Time Frame
The Treasury Board Secretariat is offering different advanced courses to Compensation Advisors as needed.	As per the Treasury Board's current fiscal year course calendar.
The Regional Chiefs of Compensation will establish a training schedule for their respective Compensation Advisors.	For fiscal year 2002-2003, the Treasury Board's course calendar will be published in March 2002.

1. Introduction

This audit project was included in the Review Branch Plan for Year 2000/2001 and approved by the Departmental Audit and Evaluation Committee (DAEC) at its meeting of April 25, 2000.

An audit of Cash out Work Force Adjustment was completed in 1994 and a management audit of special departure incentive programs (ERI and EDI) was completed in 1997 by the Review Branch. While these audits are related to the subject of compensation, an assessment of departmental pay administration, or the activities in the payment of employee regular and supplementary cheques has not been conducted by the Audit and Evaluation Branch[1] in the last 10 years.

2. Background

In the *Estimates* for Year 1999-2000, Environment Canada reported planned spending of $293.3 Million in Personnel expenditures ($244.4 Million in salaries and wages, and $48.9 Million in Contributions to employee benefit plans) out of a total net budgetary expenditure of $548.5 Million, i.e. 54%. The importance of salaries in the overall net budget supports the conduct of an Audit of Compensation to ensure that proper controls and mechanisms are in place, Central Agency policies are implemented and collective agreements are respected.

Since 1995, there has been additional workload imposed on departmental compensation units as a result of Pay office (PWGSC) downsizing, thus a shifting of the responsibilities to the Departments. Results from the 1999 Public Service Survey have shown that a higher percentage of employees from the Human Resources Directorate (HRD) than the national total for EC consider their workload to be unreasonable. Excessive workloads and the pressure to meet various deadlines could very well result in less time for verification of individual pay actions and a higher probability of errors.

Adding to the workload are recent challenges for the pay community; the ratification of numerous collective agreements, current challenges such as pay equity and upcoming challenges such as UCS all place considerable levels of stress to operational units already recognized as overworked.

3. Purpose

The purpose of the audit was to assess:

a) the effectiveness and efficiency of the pay, leave and overtime process i.e. accurate and timely paycheques;

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[1] The Review Branch changed its name to the Audit and Evaluation Branch on May 3, 2001.

b) the compliance with central agency and departmental policies, directives and operating procedures related to pay process administration, and the compliance with the Terms and Conditions of Employment and collective agreements; and

c) whether the administration of leave and extra duty pay is in compliance with policies, directives, guidelines and collective agreements.

4. Audit Objectives

Audit Objective for the Pay Process as per TB *Guide to an Audit of Compensation & Benefit*

1. Integrity of departmental pay transactions; specifically that pay is accurate, timely, authorized and handled with due care.

Audit Objective for the Overtime (Extra Duty pay) Process as per TB *Guide to an Audit of Compensation & Benefit.*

2. Extra duty pay is properly authorized, is reported in accordance with applicable terms and conditions of employment and pay action is timely.

Audit Objective for the Leave Process as per TB *Guide to an Audit of Compensation & Benefit*

3. Leave is granted and approved, within delegated authority, in accordance with applicable terms and conditions of employment and central agency policies.

5. Scope of the Audit

The scope of this Audit includes the pay, leave and overtime processes, from the receipt in Human Resources Directorate (HRD) of a source document until the delivery of the desired outcome, such as a supplementary cheque. Included in the scope are decisions or pay actions related to starting (i.e. Taken On Strength), changing (i.e. Miscellaneous Staffing Action) or terminating (i.e. Struck off Strength) an employee's pay, as well as entitlements (i.e. Acting Pay). Supplementary cheque payments, or the payroll registers which contain the output information, have been examined. Regular cheques have been examined when the pay actions effect a change to the employee's bi-weekly pay. In addition, leave records have been examined to assess decisions related to the administration of leave with and without pay. Finally, overtime records have been examined to assess the decisions related to the calculation of extra duty pay, based on the applicable clauses in collective agreements.

Not included in the scope are decisions related to pensions, pension or superannuation arrears estimates, benefits such as Death Benefit and Insurances (Public Service Health Care Plan, Disability Insurance and Long Term Disability, Public Service Dental Care Plan and the Public Service Management Insurance Plan). Also not included were the calculation of leave entitlements, and the management of leave and overtime.

The scope of the Audit includes the compensation offices in the National Capital Region, and two regional offices, namely the Prairie and Northern Region, and the Ontario Region. The compensation offices of Downsview, Burlington and Dorval, which all report to the Director of HR of the Ontario Region, were visited. A number of transactions on various paylists from these compensation offices were selected for the purposes of the testing.

The reference period used for the selection of the sample was all on-line transactions and leave entries recorded in the on-line pay and the Human Resources Management Information (leave module) systems between April 1, 2000 and October 31, 2000.

6. Methodology and Approach

1. Interviews were held with key individuals: Chief of Compensation (NCR), supervisors, Compensation Advisors, and Finance representatives involved in the pay/leave/overtime process.
2. Key background documents were reviewed such as pay manuals from PWGSC, and statistics on transactions.
3. The Pay process was flowcharted using diagram software.
4. An analysis of the pay process currently in place was conducted, assessing the effectiveness and efficiency of the process against the criteria and procedures identified. Existing controls for the payment and verification of paycheques and the administration of leave and overtime were evaluated.
5. Tests were conducted to determine the level of application and adequacy of controls within the process. These tests consisted of the review of a sample of medium to high risk transactions. Examples of higher risk transaction are: significant amount of money paid out (i.e. performance pay); complex transactions (i.e. change of hours); new type of transaction (i.e. excess leave payments). The detailed methodology document is referenced in the Annex 1.

7. Audit Findings

7.1 Assessment of the Audit Objective for the Pay Process

<u>Objective</u>: Integrity of departmental pay transactions; specifically that pay is accurate, timely, authorized and handled with due care.

We assessed whether:

⇒ *financial controls of pay expenditures exist and are consistent with requirements of FAA Section 33 - Payment Authority, and FAA Section 34 - Spending Authority.*

The *Comptrollership Policy on Pay Administration* requires that the senior financial officer in conjunction with senior human resources management develops efficient and effective accounting procedures to ensure that all input documents meet the requirements of the policy on account verification relating to Section 33 and 34 of the FAA.

From interviews, it appears that the financial officers responsible for Section 33 are not consistently aware of the *Comptrollership Policy on Pay Administration* nor are they consistently comfortable when signing Section 33. It is therefore recommended that the policy be discussed and communicated internally by the DG, Human Resources and the DG, Finance.

The pay process differs from the processing of other expenditures in that the authorizing input document sent to PWGSC does not contain the amount of the cheque to be produced. Items incorporated into pay input documents such as the applicable rate of pay, entitlement to allowances and other terms and conditions of employment are determined by personnel staff. Therefore when the financial officer authorizes a payment, the dollar value of the transaction is not known.

Transactions are received by finance through the on-line pay system and they are authorized individually for Section 33. There are no back-up documents sent to finance, nor does finance verify them on a sample basis. The role of finance is to ensure that the coding is correct, and cheques are distributed. In terms of accuracy of payment and compliance with relevant statutes, financial officers rely on the verification performed by the HR staff, although from our interviews, the nature of the verification performed by HR under Section 34 was not always clear for financial officers.

For example, in several cases, financial officers were operating under the assumption that compensation advisors have up-to-date specimen signature cards for managers with delegated signing authority, but in fact this is not the case for any of the regions audited. This means that the signatures on source documents are not verified against specimen signatures. Verification of the authorized level of approval for pay transactions should be included in the control framework for pay administration. Also, the work of compensation advisors is not consistently, in all regions, being cross-verified by their peers. While a 100% cross-verification is not needed, a formal approach based on risks for implementing the necessary controls should be established.

Some Compensation Advisors use check lists for routine transactions such as acting pay or temporarily struck off strength, while others do not. In some cases, there is no trail of the calculations performed by the compensation advisor. Although this is not a requirement, it is a good practice to have on file the details of the calculations when a complex transaction is being processed.

However those financial officers, who in addition to exercising Section 33 are responsible for financial planning in their region, perform a verification between the Salary Forecasting System (SMS) and the on-line pay system, (pay tapes from the on-line pay system are downloaded into SMS) which provides them with additional assurance that the transactions are accurate. They receive the SMS report (report by employee/transaction/year to date amount) from the administrative officers every month, which allows them to reconcile the forecast data with the actual, from month to month.

For example, with respect to Ontario Region employees paid out of the Downsview pay office, the financial officer receives monthly updates for SMS from administrative officers with respect to individuals who will be struck off strength or taken on strength (with dates, group & level) or on leave (maternity, leave with income averaging, education, etc). The financial officer enters this information in the SMS system. When a pay transaction goes through showing someone new or changes for an individual, the financial officer checks it with SMS to ensure that it agrees with what the branch has advised them. If there is a discrepancy, the financial officer checks with the administrative officer and pay & benefits to determine where corrective action is required. The SMS system provides variance reports showing what the planned staffing is for an individual versus what has actually been paid.

But not all financial officers who authorize payments under Section 33 have financial planning responsibilities related to SMS. For those who do not have financial planning responsibilities related to SMS, their level of comfort is decreased significantly.

We also noted that financial officers with Section 33 responsibilities for pay authorization receive little or no formal training on the on-line pay system or in pay in general.

Overall, it appears that current financial controls are insufficient to support the financial responsibilities under Section 33, as per the TB *Comptrollership Policy on Pay Administration*. The DG, Human Resources and the DG, Finance need to define clearly their respective responsibilities and controls in the pay administration process, ensuring that the verification of pay input data by the financial organization does not duplicate the work already performed by human resources personnel. It should, however, consist of a thorough verification of those areas within the scope of financial responsibilities and those aspects which are required for financial control. It could for example consist of a regular verification by finance of source documents pertaining to a sample of transactions sent for payment. The periodic sampling by finance of the pay documents prior to Section 33 release, in conjunction with the monthly distribution by administrative officers of detailed salary expenditure reports to program managers, should provide a sufficient level of controls.

The implementation of the *Comptrollership Policy on Pay Administration* will provide both communities, Finance and HR, with an increased level of assurance that the payee is entitled to or eligible for the payment, that the transaction is accurate and complies with all relevant statutes, regulations and Treasury Board policies.

We assessed whether:

⇒ *a mechanism exists to ensure the adequacy, validity and completeness of pay input data prior to submission to PWGSC.*

We found that there is a mechanism in place to ensure the adequacy, validity and completeness of pay input data prior to submission to PWGSC.

Compensation Advisors need to consider a large number of collective agreements, procedures and policy manuals for their day to day work. The reference material is available to Compensation Advisors, mostly in an electronic form. In the NCR and PNR, Compensation Advisors have that information available on a second monitor while they are working in the on-line pay application to create an on-line transaction, which will generate a sequence number. The system performs certain edits and will not create a transaction unless the mandatory fields have been completed and all fields contain valid data. The transaction resides temporarily in ‘pending verification’ status until it is verified, or electronically accepted. Some Compensation Advisors verify and monitor the work of other Compensation Advisors through formal and on-going peer verification in order to ensure that the calculations are in accordance with various HR acts, regulations, policies, guidelines and agreements. In some cases a 100% verification is being conducted, in other cases the verification will occur only if the Compensation Advisor is unsure about the correctness of the input because of its complexity, or because it is a type of transaction which is seldom done, such as a Death-in-Service.

The efficiency of the process would be increased if the peer verification was based on the risks attached to the transaction. Some routine transactions might not require any verification, while some others, more complex, would call for a thorough verification of all the calculations. To complete the process, it is suggested that the supervisor and/or a peer and/or a third person, perform a regular post-verification on a sample basis.

We assessed whether:

⇒ *mechanisms are in place to ensure reconciliation of pay input versus pay output (cheque verification).*

We found that mechanisms are in place to ensure reconciliation of pay input versus pay output.

The pay register is used to reconcile the amount of the cheque with the pay transaction. The Compensation Advisor who has done the pay transaction pulls the printed transaction and verifies its accuracy with the pay register, verifying the number of days and the salary rate of the supplementary cheque. If the cheque is correct, the Compensation Advisor puts a checkmark in the pay register and authorizes the release of the cheque by finance.

We assessed whether:

⇒ *effective decision-making and control points are in place to effect the payment process;*
⇒ *input of actions is timely and accurate; and*
⇒ *the pay process systems are effective, for example that there are no inefficiencies or duplication of forms and record keeping, that may be evident with respect to practices and procedures.*

Overall, effective decision-making and control points are in place to effect the payment process.

In our sample, we verified the lag between the date a source document is received by the Compensation Advisor and the date of Input of actions in the on-line pay system. Overall transactions are processed in a timely fashion.

When examining the pay process, we found that a number of forms are in circulation, specifically pertaining to the extra duty pay. This is described in the next section of the report. Utilization of various templates which basically have the same purpose renders the pay process systems less effective. Also there are inefficiencies due to incomplete forms/source documents which then require that the Compensation Advisor contact the manager or the Administrative Assistant to obtain the missing data.

The efficiency of the pay process could be improved by defining clear accountabilities for managers, administrative officers and pay officers. Currently, managers rely on compensation advisors to correct any errors or to complete any missing information on the forms received such as overtime forms. The percentage of forms to be completed or corrected is very high, reaching in some cases 50% or more. The manager, administrative assistant and employee should have a good knowledge of their collective agreements in order to minimize the burden on compensation advisors.

Although we did not find a high level of errors, the overall efficiency of the Downsview compensation office could be improved by providing a stronger support to the Compensation Advisors in terms of guidance and monitoring. Also, an effort should be made in that unit to improve the records management relating to personal files of employees, and personal history cards to ensure that the files are complete and the information is available and well organized. This is a good management practice which is especially important in the current context of turnover of employees.

Compensation Advisors deal with a variety of transactions such as statutory increments, allowances, overtime, leave with and without pay, insurances, death benefits, superannuation, retirement allowance, departure entitlements, work force adjustment transactions, income averaging, alternative work arrangements, effects on benefits due to divorce or separation. The regulations governing those transactions are complex and are being modified from time to time. Although Compensation Advisors have all received the main training from PWGSC, it appears from our interviews that there is a need for refresher courses, particularly for pension. It is therefore suggested to assess the training needs of compensation advisors in terms of new courses and refreshers.

7.2 Assessment of the Audit Objective for the Overtime (Extra Duty pay) Process

<u>Objective</u>: Extra duty pay is properly authorized, is reported in accordance with applicable terms and conditions of employment and pay action is timely.

We assessed whether:

⇒ *Controls exist in the compensation process to ensure that all extra duty is pre-authorized*.
⇒ *Controls exist to ensure that extra duty is approved within delegated authority, in accordance with applicable terms and conditions of employment and central agency policies.*
⇒ *Source documents, extra duty records and on-line input transactions are in compliance with terms and conditions of employment.*

We found that compensation advisors are not verifying the pre-authorization of the extra duty pay. When the forms are received in the compensation office, they have been signed by the manager, who has approved the extra duty pay for the extra duty already performed.

The overtime process starts when a Compensation Advisor receives the overtime form. The Compensation Advisor checks whether the form has been accurately completed, checks the compliance with collective agreements clauses, and checks for the existence of signature of both the employee and the manager. Manual calculations are then made to verify the number of hours to be paid, the rate to be used, the salary, and the total amount is annotated on the form. If the employee has indicated on the form he wishes to be paid in cash, the information is entered into the on-line pay system. When the employee has chosen to be paid in compensatory leave, the data is entered in the HRMIS leave system.

Compensation advisors do not have specimen signatures of managers who are authorized to approve extra duty pay. In most cases they only make sure that the form is signed, and if not they return the form to the manager for completion.

Various templates for extra duty pay are in circulation. This complicates the work of compensation advisors. Some regions have already streamlined the process by reducing the number of forms that can be used. Also, in many cases, the forms are not completed adequately by the employee or the manager. In such cases, the compensation advisor has to go back to the manager, the administrative assistant or the employee to seek additional information.

Overall, the transactional testing revealed that source documents, extra duty records and on-line input transactions are in compliance with terms and conditions of employment. Detailed results of the testing are referenced in Annex 1.

7.3 Assessment of the Audit Objective for the Leave Process

Objective: Leave is granted and approved, within delegated authority, in accordance with applicable terms and conditions of employment and central agency policies.

We assessed whether:

⇒ *Controls exist to ensure that leave without pay is reported promptly and all leave usage is properly authorized.*

⇒ *A mechanism exists to ensure that the administration of leave is within delegated authority and in accordance with applicable terms and conditions of employment and central agency policies.*

⇒ *The administration of compensatory leave, and the liquidation of leave (including excess leave) are in accordance with applicable terms and conditions of employment.*

We looked at the leave process from the moment that a leave form is received by the compensation unit. (We did not assess in this audit whether all absences are being reported).

Leave credits are allocated according to the continuous service date. The Compensation Advisor is responsible for calculating this date. In cases where an employee goes on leave without pay, or changes his working hours, the Compensation Advisor needs to recalculate the credits and the new information is entered into the HRMIS leave system. Since September 2000, a new electronic leave and reporting system, ELRS, is being rolled out for the management of leave. With this new system, leave can be requested and approved electronically. As well, employees can go directly into ELRS to consult their leave balances instead of calling the Compensation Advisor. This will increase the efficiency of the leave process. Although with the ELRS, the data entry of leave requests (leave usage) is no longer done by HR, leave requests must be validated by HR before being accepted into the HRMIS system. All requests for leave without pay must still being sent to the Compensation Advisor.

Overall, we found that controls exist to ensure that reported absences are administered in accordance with applicable terms and conditions of employment. The sample of leave transaction tested show that overall the leave transactions are accurate. However, we found that in the Burlington compensation office excess leave was not liquidated properly. This has now been corrected.

Leave usage is authorized, although as previously noted, the compensation advisors do not have specimen signatures of managers with delegated authority to do so. Also in some cases, the leave is reported late which may cause overpayment which then must be recovered from the employee's pay.

7.4 Other Issues - Workload and Resources

Workload and Staff Turnover

Although this was not the primary line of inquiry in this audit, the issues of workload and staff turnover was brought to our attention. From our interviews, it appears that Compensation Advisors deal in some cases with more accounts that the number stated in the TBS Standards. According to those standards, the ratio would be one Compensation Advisor for 175 accounts. The Table below shows the current approximate case load of accounts by compensation office. There is a risk (which already materialized in several instances) that Compensation Advisors leave the department for similar positions in other government departments where they would work with fewer accounts. This represents a loss for the department in terms of its knowledge base and requires the extensive training of new staff. It takes an average of two to three years before a Compensation Advisor is fully trained.

Also, results from the 1999 Public Service Survey have shown that a higher percentage of employees from the Human Resources Directorate than the national total for EC consider their workload to be unreasonable. Excessive workloads and the pressure to meet various deadlines could very well result in less time for verification of individual pay actions and a higher probability of errors. It appears therefore that the workload of Compensation Advisors should be assessed against appropriate standards and an action plan should be prepared in order to reduce the risk of staff leaving the department. The table below provides a picture of the number of accounts for EC. It should be noted that the number of accounts may vary as a result of departures, the hiring of new employees and organizational changes (i.e. effective October 2001, the new average for Dorval is 200).

Source: information provided to the auditors through NCR in the Fall 2000

	NCR	PNR	DOWNSVIEW	BURLINGTON	DORVAL
# of Accounts	1585	681	765*	502	335*
# of fully trained Compensation Advisors with accounts	6	4	3	2	2
Average # of accounts per Compensation Advisor**	264	170	255	251	168

*the 109 accounts transferred temporarily to Downsview have been rolled up into the Dorval total
**TBS standard is 175 accounts per Compensation Advisor

8. Recommendations

Recommendation #1

Under the functional direction of the Director, Classification and Staff Relations and in concert with the Regional Directors of Human Resources, a control framework for pay administration should be prepared, based on the directions given by the Treasury Board *Comptrollership Policy on Pay Administration*. This pay administration framework would define the respective responsibilities of managers, administrative assistants, compensation advisors and financial officers in the pay, leave and overtime processes. Verification of the authorized level of approval for pay transactions should be included in the control framework for pay administration. This control framework will also include the following components of controls and communication:

a) Risk-based controls should be implemented in the compensation units. Also, a post verification of a sample of transactions should be conducted by the supervisor, and/or a peer and/or a third person.

b) Authorization of payment by Finance under Section 33 of the FAA should only occur when finance has reasonable assurance that the payee is entitled to or eligible for the payment, the transaction is accurate and complies with all relevant statutes, regulations and Treasury Board policies. Finance could verify on a sample basis the source documents pertaining to the transactions to be authorized.

c) An information session and/or package should be prepared by Staff Relations in conjunction with Compensation Services, and communicated to managers and administration staff. Information provided would include collective agreement interpretations, the management and administration of leave and overtime, the proper completion of forms in use, and the application of new compensation related policies.

<u>Management Response:</u>

The DG, HRD agrees with this recommendation.

Proposed Actions	Time Frame
a) Stop verifying the Overtime Form prior to the request for payment on-line. It will be Manager's responsibility to ensure that the request is in accordance with the relevant collective agreement.	• Inform Managers directly one month prior to the change February 1, 2002. • Reminder two weeks prior to the change March 1, 2002. • To be implemented by March 15, 2002.
Other pay transactions: the regional Chief of Compensation will establish a control mechanism.	Depending on the performance and experience of the Compensation Advisors on a current basis.

b) The Director General Human Resources and the Director General Financial Service will define their respective responsibilities and control measures to ensure that the on-line transactions verification is not duplicated and the Compensation Section will provide to Financial Services all required documents needed for the authorization of some transactions.	February 15, 2002.
c) The Corporate Compensation Unit and/or Corporate Staff Relations Unit will contribute to the development and maintenance of a Compensation Web Site on “Infolane”. The Corporate Compensation Unit will inform all employees of the department of important changes to their benefits and of new collective agreements via “Exchange Admin”.	Under revision but will be implemented by March 31, 2002. On-going basis.

Recommendation #2

Under the functional direction of the Director, Classification and Staff Relations and in concert with the Regional Directors of Human Resources, the workload of compensation advisors should be assessed against appropriate standards (Treasury Board standards, level of activity on the accounts) and an action plan aimed at reducing the risk of experienced staff leaving be prepared.

Management Response:

The DG, HRD agrees with this recommendation.

Proposed Action	Time Frame
The Treasury Board standards are now 155 to 160 pay accounts per advisor. Some of our regions have an average of 300 pay accounts per advisors. The Recruitment Trainee Program will ensure to reduce the number of accounts by advisors at long term. The MSR Committee is looking into this and will make some propositions.	Propositions to be presented by the MSR Committee in January 2002.

Recommendation #3

Under the functional direction of the Director, Classification and Staff Relations and in concert with the Regional Directors of Human Resources, the training needs of compensation advisors should be assessed in terms of new courses and refreshers.

Management Response:

The DG, HRD agrees with this recommendation.

Proposed Actions	Time Frame
The Treasury Board Secretariat is offering different advanced courses to Compensation Advisors as needed.	As per the Treasury Board's current fiscal year course calendar.
The Regional Chiefs of Compensation will establish a training schedule for their respective Compensation Advisors.	For fiscal year 2002-2003, the Treasury Board's course calendar will be published in March 2002.

Annex 1 List of Supplementary Documents Audit of Compensation

Note: Supplementary documents may not be available in both official languages.

1. Detailed methodology for testing
2. Results of on-site review cases:
    - 2.1 National Capital Region
    - 2.2 Ontario Region
        - 2.2.1 Downsview
        - 2.2.2 Burlington
        - 2.2.3 Dorval
    - 2.1 Prairie and Northern Region
3. Public Service Pay at EC - Process flowchart

Annex 2 Audit Objectives for the Pay Process as per TB Comptrollership Policy on Pay Administration

All pay input documents meet the requirements of the policy on account verification relating to Sections 33 and 34 of the FAA and the requirements of the *Payment Requisitioning Regulations.*

- Departments should ensure that: the verification of pay input data by the financial organization does not duplicate the work already performed by human resources personnel. It should, however, consist of a thorough verification of those areas within the scope of financial responsibilities and those aspects which are required for financial control.
- Financial Officers with payment authority under Section 33 of the FAA 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 and conscientiously followed.
- The process for verifying accounts (Section 34) must leave auditable evidence of verification, including the identification of the various individuals involved.
- To minimize the possibility of an employee leaving the federal Public Service owing money or any other material (e.g. outstanding accountable advances such as travel advances, standing advances, emergency salary advances, petty cash funds, change floats; acquisition cards; travel cards; identity cards; overdrawn leave; and equipment, tools, manuals, etc. on loan), departments should establish a departure report and checklist that would require specific organizations such as human resources, security, materiel management, administration, library and financial services to sign off before the final payment to the employee is released.
- Financial organizations should always sign off last to ensure that all other areas have been cleared and that no money is owed to her Majesty: only then should the final payment be released.