



Veterans Affairs
Canada

Anciens Combattants
Canada

EMPLOYEE COMPENSATION AUDIT

FINAL: MAY 2010



Canada 



*This report was prepared by the
Audit and Evaluation Division*

ACKNOWLEDGEMENT

Audit and Evaluation Division acknowledges the time and effort given by departmental managers and staff to provide information associated with this audit.

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EXECUTIVE SUMMARY

Background

The Employee Compensation Audit was part of the 2009/2010 Veterans Affairs Canada Audit Plan approved by the Deputy Minister (DM).

As part of the design process, a preliminary survey was conducted to determine the areas of pay that have the highest level of risk for the department. As a result, Regular pay, Overtime Pay and Acting Pay were included in the audit.

Veterans Affairs Canada (VAC) has offices located in each Canadian province with the exception of the territories. VAC's pay processing is done in five different pay offices which are located at Head Office (HO) in Charlottetown, the Ontario and Atlantic regional offices in Kirkland Lake and Halifax, the Ste. Anne's Hospital in Sainte-Anne de-Bellevue and the Centre of expertise shared pay and benefits services of Public Works and Government Services Canada (CESPBS-PWGSC) in downtown Montreal. The CESPBS-PWGSC was contracted by VAC to process the Quebec region and the Ste. Anne's Hospital regular pay.

The administration of pay is very complex and is governed by several authorities, such as the *Public Service Employment Act*, the *Financial Administration Act (FAA)*, related terms and conditions of employment and collective agreements, and VAC and Treasury Board related policies, guidelines and directives which clearly define the rules and regulations that departments must follow in order to pay adequately and accurately employees working for the federal public service. The *Comptrollership Policy on Pay Administration* and the *Policy Framework for the Management of Compensation* defines the overall responsibilities and the administrative principles for federal government departments in relation to the administration of pay and related benefits for their employees.

During the fiscal year 2008-2009, the Human Resources Compensation Sector and the Finance Division were the organizations within VAC responsible for the management, processing and payment of pay related transactions. Within those two organizations, compensation advisors and managers were the persons responsible for inputting and processing pay related transactions in the PWGSC Regional Pay System (RPS), and for ensuring the accuracy, integrity, verification and timeliness of such transactions. Financial officers were in turn responsible for the final bulk approval and payment under section 33 of the FAA of such transactions.

The following table provides an overview of VAC's Salary expenditures for the selected area of pay for the fiscal year ending March 31, 2009.

Table 1 Total number of transactions and total salary expenditures by pay type for the fiscal year ending March 31, 2009

Type of Pay	Total number of pay transactions for 2008-2009	Total expenses (in dollars)
Regular Pay	114,163	\$ 219,185,562.89
Acting Pay	6,520	\$ 14,433,682.52
Overtime Pay	16,192	\$ 4,876,465.16
Total Pay	136,875	\$ 238,495,710.57

As of March 31, 2009, VAC had approximately 4,153 employees, with 3,933 employees occupying indeterminate positions and 220 employees occupying fixed term positions. The total salary expenses incurred by VAC in 2008-2009 totalled 238.5 million dollars. The compensation for overtime work during that year totalled 4.9 million dollars in cash and 5244.4 compensatory days off taken. The total number of employees who were appointed in at least one acting assignment during that year is 330, with an average length of 132 work days in each appointment.

Objective

The main objective of the audit was to provide assurance on the accuracy and timeliness of pay processing at VAC and the adequacy and effectiveness of internal controls related to the administration of regular, acting and overtime pay in the department. This audit also included a compliance assessment of the management control framework in place and used to support regular, acting and overtime pay processing, and a compliance assessment of VAC compensation pay practices with relevant legislation, regulations, Treasury Board policies and directives, terms and conditions of employment, and various collective agreements.

The specific objectives for this audit were:

1. To assess the adequacy, accuracy and completeness of VAC's payroll processing at VAC;
2. To assess the legitimacy, accuracy and completeness of the supporting documentation used to process pay transactions at VAC;
3. To assess the timeliness of payroll processing at VAC;
4. To assess the adequacy and effectiveness of under and over payments management at VAC;

- 5.1 To assess compliance of VAC's Compensation practices with compensation authorities such as VAC and TB policies and procedures, departmental financial and Human Resources (HR) delegation of signing authorities, the terms and condition of employment, and the various collective agreements, etc; and
- 5.2 To assess the adequacy of VAC management control framework in place and used to support regular, acting and overtime pay processing at VAC.

Overall results and Key findings

Recommendations

Recommendation 1 (Critical)

The Director General of Finance should create, implement and maintain a pre-payment and/or post-payment verification process for payroll transactions to ensure compliance with the requirements of section 33 of the FAA.

Recommendation 2 (Important)

The National Compensation Manager should implement the new Compensation service standards across VAC's pay offices to ensure that VAC's compensation service standards are defined and applied consistently across Canada.

Recommendation 3 (Essential)

The National Compensation Manager should ensure that efficient controls are put in place to ascertain that all documents used for VAC's pay processing are completed accurately before processing them.

Recommendation 4 (Important)

The National Compensation Manager should review the pay processes in order to ensure that all VAC pay offices use the same supporting documentation to process pay.

Recommendation 5 (Essential)

The Director General of Human Resources should review the staffing processes to ascertain that letters of offer are prepared and signed prior to the official starting date of any appointment to ensure that pay processing is not delayed.

Recommendation 6 (Important)

The National Compensation Manager should:

- Provide input to the Integrated Human Resources and Business Plan to help ensure that appropriate measures are included to address compensation requirements and unanticipated changes in workload and employee availability; and
- Continue to work closely with the regions on the timeliness of pay processing.

Recommendation 7 (Essential)

The Director Labour Relations and Compensation Directorate in cooperation with the National Compensation Manager should:

- Review the processes used to detect overpayment and underpayment situations to ensure that well defined internal controls are established and implemented to detect and correct such irregularities in a timely manner; and
- Reinstate the quality review process in the compensation sector to ensure that a national compensation quality review of a sample of all types of pay transactions is conducted at the national level at least every second year.

Recommendation 8 (Important)

The Director General of Finance should take steps to ensure that all staffing transactions are committed and entered into Departmental accounting system (Salary Management System and Freebalance).

Recommendation 9 (Important)

The Director General of Human Resources should make recommendations to PWGSC review and amend their Extra Duty Pay / Shiftwork Report and Authorization form (GC 179) in order to include spaces for printing the names of the supervisor and the manager who are authorizing and approving the overtime work, and to include a space for the date of signature in the supervisor's authorization section.

Recommendation 10 (Important)

The Director General of Human Resources should:

- Remind staff and managers that overtime forms should be received and processed in a timely fashion; and
- Ensure submitted compensatory leave overtime forms are processed in PeopleSoft on a timely basis.

Recommendation 11 (Essential)

The Director General of Human Resources should:

- Clarify the roles and responsibilities of managers and HR staff around the management of acting appointments, particularly around the management of acting appointment termination or extension; and
- Take steps to insure that acting assignments are terminated at the completion date of the appointment if supporting documentation to extend the appointment has not been received by compensation staff.

Recommendation 12 (Important)

The Director General of Human Resources should clarify and communicate VAC's expectations around information and work processes from managers and staffing, to compensation and finance when it relates to the departmental processing of pay.

Audit Opinion

Audit and Evaluation Division (AED) concludes with a high level of assurance that, (with the exceptions of weaknesses documented herein regarding the adequacy and effectiveness of the management control framework), VAC's payroll processing during the fiscal year ending March 31, 2009 of regular, acting and overtime transactions were done accurately and in compliance with relevant legislation, regulations, Treasury Board policies and directives, terms and conditions of employment, and various collective agreements.

In the opinion of the Chief Audit Executive, improvements are required to the management control framework applicable to the employee compensation functions. There is a critical weakness identified in the report which could compromise control objectives. The controls in place do not bring residual risk below an acceptable level.

For further information on the detail findings specific to each objective, see Table on page 12.

Assurance Statement

In the professional judgment of the Chief Audit Executive, sufficient and appropriate audit procedures have been conducted and evidence has been gathered to support the accuracy of the opinion provided in this report. This opinion is based on the conditions, as they existed at the time of the audit. The opinion is only applicable to the entity examined and for the scope and time period covered by the audit. The evidence was gathered in compliance with Treasury Board policy, directives, and standards on internal audit and the procedures used meet the professional standards of the Institute of Internal Auditors. The evidence has been gathered to be sufficient to provide senior management with the proof of the opinion derived from the internal audit.

Original signed by

May 7, 2010

Orlanda Drebit
Chief Audit Executive

Date

1.0 INTRODUCTION

The Employee Compensation Audit was part of the 2009/2010 Veterans Affairs Canada (VAC) Audit Plan approved by the Deputy Minister (DM). This audit was selected based on three important factors:

- The risks associated with the materiality of the annual and recurring pay expenses for Veterans Affairs Canada;
- Weaknesses identified by the Auditor General of Canada in the management control framework, such as the absence of a post-payment review process for payroll transactions; and
- The indications of errors with respect to certain transactions such as acting and overtime pay.

The Audit and Evaluation Division (AED) conducted this audit engagement.

2.0 BACKGROUND

As part of the design process, a preliminary survey was conducted to determine the areas of pay that have the highest level of risk for the department. Pay is an amount of money given to an entitled employee for services rendered in accordance with the relevant terms and conditions of employment, at the applicable rate of pay determined by a collective agreement or approved by Treasury Board for the group and level the employee is at. As a result of the preliminary survey, Regular pay, Overtime Pay and Acting Pay were selected as the basis for the audit.

Veterans Affairs Canada has offices located in each Canadian province with the exception of the territories. VAC's pay processing is done in five different pay offices which are located at Head Office (HO) in Charlottetown, the Ontario and Atlantic regional offices in Kirkland Lake and Halifax, the Ste. Anne's Hospital in Sainte-Anne de-Bellevue and the Centre of expertise shared pay and benefits services of Public Works and Government Services Canada (CESPBS-PWGSC) in downtown Montreal. The CESPBS-PWGSC was contracted by VAC to process the Quebec region and the Ste. Anne's Hospital regular pay.

The administration of pay is very complex and is governed by several authorities, such as the *Public Service Employment Act*, the *Financial Administration Act (FAA)*, related terms and conditions of employment and collective agreements, and VAC and Treasury Board related policies, guidelines and directives which clearly define the rules and regulations that departments must follow in order to pay adequately and accurately employees working for the federal public service. The *Comptrollership Policy on Pay*

Administration and the Policy Framework for the Management of Compensation defines the overall responsibilities and the administrative principles for federal government departments in relation to the administration of pay and related benefits for their employees.

During the fiscal year 2008-2009, the Human Resources Compensation Sector and the Finance Division were the organizations within VAC responsible for the management, processing and payment of pay related transactions. Within those two organizations, compensation advisors and managers were the persons responsible for inputting and processing pay related transactions in the PWGSC Regional Pay System (RPS), and for ensuring the accuracy, integrity, verification and timeliness of such transactions. Financial officers were in turn responsible for the final bulk approval and payment under section 33 of the FAA of such transactions.

The RPS is the central pay system used government wide to process all federal government employees' pay. PWGSC is responsible for the development, maintenance and operation of the system. PWGSC is also responsible for providing training, guidelines (Personnel Pay Input Manual - PPIM), support and advisory services in relation to the RPS to all departmental compensation advisors. PWGSC uses the RPS to:

- Calculate employees' remuneration, including regular pay, overtime pay, etc.;
- Calculate gross to net pay;
- Calculate retroactive pay upon the signing of new back-dated collective agreements;
- Issue year-end tax slips;
- Remit deductions to third parties such as the Canada/Quebec Pension Plan, Canada Revenue Agency, Charity Organizations such as the United Way; and
- Implement the rules of the Treasury Board and separate employer collective agreements and policies and legislation.

The payments of all pay transactions calculated by the RPS are issued by the Receiver General's Standard Payment System.

Due to the complexity of the compensation advisors' responsibilities and functions, it takes at least 2 years of training, including in class and on the job training, to become an efficient and competent compensation advisor. Here is a list of the processes and functions for which they are responsible for when fully trained and operational beyond and above their direct involvement with pay processing:

- Helping staff with retirement planning, health care benefits and insurance coverage;

- Assisting managers and employees on pay and related benefits matters;
- Processing appointment/new hires (Take-on-strength);
- Processing Transfer-in from Other Government Department (OGD);
- RPS data input for appointments/new hires;
- Making changes to individual pay files when new information on pay related transactions is received or new collective agreements are signed;
- Processing Transfer-out to Other Government Department;
- Processing Departing staff (struck-off-strength); and
- Post-Pay verification of cheques before departmental distribution and release.

VAC also uses the Salary Management System (SMS) to help with tracking payroll transactions and forecasting future salary costs. The salary costs are posted to Freebalance accounting system that will be used to create the Department's financial statements.

As of March 31, 2009, VAC had approximately 4,153 employees, with 3,933 employees occupying indeterminate positions and 220 employees occupying fixed terms positions. The total salary expenses incurred by VAC in 2008-2009 totalled 238.5 million dollars. The compensation for overtime work during that year totalled 4.9 million dollars in cash and 5244.4 compensatory days off taken. The number of employees who were appointed in at least one acting assignment during that year is 330, with an average length of 132 work days in each appointment.

3.0 AUDIT OBJECTIVES

The main objective of the audit was to provide assurance on the accuracy and timeliness of pay processing at VAC and the adequacy and effectiveness of internal controls related to the administration of regular, acting and overtime pay in the department. This audit also included a compliance assessment of the management control framework in place and used to support regular, acting and overtime pay processing, and a compliance assessment of VAC compensation pay practices with relevant legislation, regulations, Treasury Board policies and directives, terms and conditions of employment, and various collective agreements.

The specific objectives for this audit were:

- 3.1 To assess the adequacy, accuracy and completeness of VAC's payroll processing at VAC;
- 3.2 To assess the legitimacy, accuracy and completeness of the supporting documentation used to process pay transactions at VAC;
- 3.3 To assess the timeliness of payroll processing at VAC;

- 3.4 To assess the adequacy and effectiveness of under and over payments management at VAC;
- 3.5.1 To assess compliance of VAC's Compensation practices with compensation authorities such as VAC and TB policies and procedures, departmental financial and HR delegation of signing authorities, the terms and condition of employment, and the various collective agreements, etc.; and
- 3.5.2 To assess the adequacy of VAC management control framework in place and used to support regular, acting and overtime pay processing at VAC.

4.0 AUDIT SCOPE

The audit was national in scope, and covered all regular pay, acting pay and overtime pay transactions processed between April 1, 2008 and March 31, 2009. Other transactions, including pay related benefits and pensions were not tested in this audit. All of VAC's pay offices (HO, Kirkland Lake, Halifax, Ste. Anne's Hospital located in Sainte-Anne –de-Bellevue and the Centre of expertise shared pay and benefits services of Public Works and Government Services Canada (CESPBS-PWGSC) located in Montreal) were visited during the audit. Telephone interviews with staff/managers from regions and offices that were not visited were included in the fieldwork for this audit.

The pay system used at Veterans Affairs Canada is called the Regional Pay System (RPS). This system is under the responsibility of Public Works and Government Services Canada. The RPS and its application controls did not form part of the scope of the present audit.

5.0 APPROACH AND METHODOLOGY

This audit engagement was conducted in accordance with the Institute of Internal Auditors' (IIA) *Standards for the Professional Practice of Internal Auditing*, as required under the Treasury Board *Policy on Internal Audit*, with the exception that the external assessment prescribed by Standard 1312 for the purpose of the quality assurance and improvement program has not been completed. This external assessment of the internal audit function at VAC has been scheduled for 2010-11.

Audit objectives were determined based on applicable authorities, policies, terms and conditions of employment and various collective agreements. A preliminary survey with VAC's senior managers and compensation managers and a thorough review of recent compensation audit reports from other federal government departments were conducted to help the auditors identify the key risk areas and issues pertaining to the compensation function at VAC. The conclusions of these analyses were used to finalize

the list of criteria that were examined in this audit (see Appendix A for a detailed list of objectives and criteria that were assessed in this audit).

The approach used to carry out this audit included:

- Reviewing applicable legislation policies and authorities and other documentation pertaining to the processing of pay and the related management practices to verify their existence and level of efficiency in the Department;
- Conducting Interviews with compensation advisors and managers, financial officers responsible for the final approval of pay transactions and payment (section 33 of the FAA), a sample of level IV and above managers, and union representatives;
- Performing walkthroughs to observe and assess processes and controls that are in place for:
 - Initiating, processing, reviewing and authorizing VAC's pay transactions and paying under section 33 of the FAA using the RPS;
 - Recording pay expenses; processing; monitoring; and reconciliation of pay information between RPS and the SMS departmental system; and
 - Management reviews and monitoring of pay expenses at the Responsibility Centre (RC) level.
- Assessing the management control framework against predetermined objectives and criteria and identifying the key weaknesses in the current management control framework used to support the processing of pay related transactions at VAC;
- Obtaining an electronic extraction from Finance of all pay transactions recorded in VAC's Salary Management System (SMS) for fiscal year ending March 31, 2009 and using a computer-assisted audit sampling software for data sampling; and
- Preparing a detailed two level statistical sampling plan and selecting, using a confidence level of 95 % and a maximum error rate of 4 %, a random sample of 294 pay transactions as recorded and accounted for in SMS.

The first step of the sampling methodology used for the selection of a statistically representative sample of pay transactions consisted in the random selection of three subsamples of regular (3,000), acting (6,000) and overtime (9,000) pay transactions, weighted in accordance to the level of risks they represented for the department. The more risky pay transactions received a greater weight (3 for

overtime, 2 for acting and 1 for regular pay transactions).

In the second step of the sampling methodology used to select the sample, the three randomly selected subsamples selected in the first stage were combined into one larger sample of 18,000 pay transactions. From this sample, the auditors then selected a statistically representative sample of 294 pay transactions using a confidence level of 95 % and a maximum error rate of 4 %. Table 2 gives full details of the sample of pay transactions used for tests conducted in this audit.

Table 2 Characteristics of the population and sample of pay transactions being tested for the fiscal year ending March 31, 2009, Veterans Affairs Canada.

Type of Pay	Total number of 2008-2009 pay transactions	Total	Subsamples of pay transactions from which the final sample of 2008-2009 pay transactions was taken	Total
Regular Pay	114 163	\$219 185 562,89	3 000	\$5 796 853,34
Acting Pay	6 520	\$14 433 682,52	6 000	\$13 277 122,95
Overtime Pay	16 192	\$4 876 465,16	9 000	\$2 658 536,61
Total Pay	136 875	\$238 495 710,57	18 000	\$21 732 512,90

Type of Pay	Final Sample of pay transactions	Total	% of subsample transactions	% of subsample total expenditures
Regular Pay	59	\$111 477,94	2,0%	1,9%
Acting Pay	89	\$200 897,70	1,5%	1,5%
Overtime Pay	146	\$38 250,32	1,6%	1,4%
Total Pay	294	\$350 625,96	1,6%	1,6%

- Performing detailed audit tests on the random sample of 294 pay transactions including 59 regular pay, 89 acting pay and 146 overtime pay transactions for the fiscal year ending on March 31, 2009 (see Table 2 above); Each pay transaction included in the sample were reviewed in the respective pay office where it was processed and all of these transactions were subject to detailed audit procedures such as:
 - Tracing to relevant original documents (forms 1450 and letters of offer) contained in the employee's personnel file or elsewhere (for example overtime forms) to confirm the transactions' legitimacy and accuracy; and
 - Verifying the accuracy of the amounts paid and VAC's compliance with applicable authorities such as the various terms and conditions of employment, the different collective agreements, and other VAC and TBS policies, guidelines and directives.

6.0 ASSURANCE STATEMENT

See Executive Summary

7.0 AUDIT RESULTS

The findings, categorized by each audit objective, are provided below. Under each objective, a table summarizes our assessment of each audit criterion under three categories as follows:

- **Met** – Criterion exists and is evident.
- **Partially met** – Criterion partially exists and/or performance is not documented or evident.
- **Not Met** – Criterion does not exist or is not evident.

The following table summarizes the findings of this audit. Please refer to the body of this report and Appendix A for further details regarding the audit findings.

Audit Objectives	Number of Audit Criteria	Met	Partially met	Not Met
7.1 To assess the adequacy, accuracy and completeness of payroll processing at VAC.	6	4	1	1
7.2 To assess the legitimacy, accuracy and completeness of the supporting documentation used to process pay transactions at VAC.	2	1	1	0
7.3 To Assess the timeliness of payroll transactions processing at VAC.	1	0	1	0
7.4 To assess the adequacy and effectiveness of under and over payments management.	2	0	2	0
7.5.1 To assess compliance with legislation, VAC and TB policies and procedures, departmental	8	3	4	1

financial and HR delegation of signing authorities, and collective agreements.				
7.5.2 To assess the adequacy of VAC management framework applicable to compensation against TB policies and procedures.	5	3	2	0

Significance of Recommendations

To assist management in determining the impact of the observations, the following definitions are used to classify observations presented in this report.

Risk Rankings for Audit Recommendations	
Critical	Relates to one or more significant weaknesses for which no adequate compensating controls exist. The weakness results in a high level of risk.
Essential	Relates to one or more significant weaknesses for which no adequate compensating controls exist. The weakness results in a moderate level of risk.
Important	Relates to one or more significant weaknesses for which some compensating controls exist. The weakness results in a low level of risk.

7.1 – Adequacy, accuracy and completeness of payroll processing

Summary of findings

Overall, with the exception of few weaknesses found with the payments part of the pay processing system and with the management control framework, VAC's payroll processing for the period under review was done adequately following an appropriate sequence of actions and segregation of duties, and was supported by well defined and understood procedures. Also, the transactions processed (with the exception of certain minor errors described Appendix B) during the fiscal year ending on March 31, 2009 were accurate, complete and in compliance with the appropriate terms and conditions of employment, collective agreements and TB policies and procedures.

Audit Criteria	Conclusion
1. There are well defined procedures for all pay transactions and compensation advisors and compensation managers are well aware of such procedures.	Met
2. Core Management Control (ST-10) – Financial payroll transactions are coded and recorded accurately to support accurate information processing.	Met
3. Pay transactions such as acting pay, overtime pay, etc. are processed in accordance with VAC service standards and the conditions of the appropriate collective or terms and conditions of employment;	Partially met
4. Core Management Control (ST-13) – There is appropriate segregation of duties in payroll processing at VAC. Individuals responsible for initiation of FAA section 32 - commitment and/or approval of payment for transactions (section 34) must not be the same as the person responsible for payment (section 33 of the FAA - requisition).	Met
5. Payments (section 33 of the FAA) for all pay transactions are done in compliance with TB and VAC policies and regulations; Transactions are randomly reviewed by a finance officer before being officially approved and submitted to PWGSC through the Regional Pay System (RPS) for processing;	Not met
6. Core Management Control (ST-11) – Appropriate system application controls exist.	Met

7.1.1 Final authorization and payment of pay transactions by financial officers are not compliant with the requirements of section 33 of the FAA.

According to the Treasury Board *Comptrollership Policy on Pay Administration* “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 TBS Pay Administration Control Framework also requires Financial Officers to conduct periodic review of pay expenditures to ensure consistent application of section 34 verification, and provide assurance to this regard. In this context, Financial Officers are required to ensure that supporting evidence (audit trail) exists for section 34 verification of pay related action requests.

Consultations with Financial Officers revealed that VAC’s pay transactions are authorized in bulk on a daily basis without any periodic review of pay expenditures - or

post payment verification - being conducted. This method does not include mechanisms to verify the legality of payments and the availability of funds, which means that the current process does not ensure consistent application of section 33 of the FAA.

Approving payments for pay expenditures in bulk without conducting pre-payment account verification and/or post-payment account verification – periodic reviews – is not complying with the requirements of section 33 of the FAA, increasing the risk of errors and/or inappropriate payments being made by VAC.

Recommendation 1 (Critical)

The Director General of Finance should create, implement and maintain a pre-payment and/or post-payment verification process for payroll transactions to ensure compliance with the requirements of section 33 of the FAA.

Management Response:

As part of the Audited Financial Statements Project, a full controls review of the Payroll process at HO and the Regions has been completed. A process for sampling payroll transactions (developed by Corrections Canada) has been analyzed and found to be a good fit for VAC. A draft sampling process and related procedures have been completed and undergoing review. Implementation of the post payment verification process remains on target for June, 2010.

Management Action Plan:

Corrective Actions to be taken	OPI (Office of Primary Interest)	Target Date
1.1 A new Financial Officer hired who will be assigned the development of a post-payment review process of payroll and sampling plan.	Finance	Completed
1.2 Review process used by Corrections Canada and adapt for VAC as required.	Finance	February 28, 2010
1.3 Prepare sampling plan and obtain approval.	Finance	April 30, 2010
1.4 Investigate data files and prepare sampling procedures.	Finance	May 31, 2010
1.5 Implement sampling.	Finance	June 30, 2010

7.1.2 VAC's service standards for the processing of pay are not consistently defined across Canada

At the time of the audit, the auditors expected to find consistently defined service standards for the processing of pay across VAC's different pay offices. However, the auditors found an inconsistency in the way VAC's pay processing service standards are defined at Head Office in comparison to other pay offices. HO has a set of pay processing service standards on their Compensation website. Additionally, the pay processed through PWGSC is governed by another set of service standards over which VAC has limited control. In comparison with what the auditors found in the SAH and the CESPBS-PWGSC pay offices, HO standards do not include service standards for the processing of acting pay and overtime pay.

The auditor's are in the opinion that not having consistently defined service standards in regards to the processing of pay across Canada can lead to varying level of services provided to VAC employees. However, HO has demonstrated its willingness to correct the situation by preparing a revised draft of their pay processing service standards that now include service standards for the processing of overtime and acting pay in the department.

Recommendation 2 (*Important*)

The National Compensation Manager should implement the new Compensation service standards across VAC's pay offices to ensure that VAC's compensation service standards are defined and applied consistently across Canada.

Management Response:

Management agrees that the Compensation Service Standards should be consistent across the country. VAC's Compensation Service Standards are currently posted on the Intranet under the Human Resources tab and have been communicated to all employees.

Management Action Plan:

Corrective Actions to be taken	OPI (Office of Primary Interest)	Target Date
2.1 Review current service standards and ensure a consistent application within VAC.	DGHR (Corporate Compensation)	April 30, 2010
2.2 Revise standards as required and in line with the Public Service Renewal Action Plan communicated to the Clerk.	DGHR (Corporate Compensation)	March 31, 2011

7.2 – Legitimacy, accuracy and completeness of the supporting documentation used to process pay transactions.

Summary of findings

The audit found that, even if the documentation used to process pay is sometimes incomplete, overall, it is legitimate, accurate, and recorded and maintained in accordance with laws and regulations.

However, the audit found important weaknesses in regards to the supportive documentation used to process pay at VAC. There are inconsistencies across VAC's pay offices with what official supportive documentation is used to process pay; and there is an important problem with the timeliness in the preparation of letters of offer, a crucial document used in the majority of pay offices to process pay.

Audit Criteria	Conclusion
1. Core Management Control (ST-12) Supporting documentation exist for all pay transactions and it is recorded and maintained in accordance with laws and regulations;	Met
2. The supporting documentation used to process pay transactions is legitimate, accurate and complete.	Partially met

7.2.1 Some documentation used to process pay is incomplete

The tests conducted during the audit revealed that in at least 7.5% of cases – 22 cases out of 294 – the supporting documents were not fully or properly completed. For example, we found a case where the letter of offer was not signed by the employee; some cases where the letter of offer wasn't dated by the employee and/or the manager; some cases where the overtime sheet wasn't signed and/or dated by the employee and/or manager and/or supervisor; some cases where the form 1450 or the reclassification letter didn't specify the position number; and a case where the starting date and ending date of the acting assignment wasn't specified on the form 1450.

In the auditors' opinion, using incomplete supporting documentation or forms to process pay increases the risk of errors in pay processing.

Recommendation 3 (Essential)

The National Compensation Manager should ensure that efficient controls are put in place to ascertain that all documents used for VAC's pay processing are completed accurately before processing them.

Management Response:

Management agrees that all compensation advisors should ensure that the authorized documents are duly completed prior to processing otherwise documents will be returned to staffing or managers. A reminder to managers will be sent to inform them of their responsibilities with regards to the preparation of documents.

Management Action Plan:

Corrective Actions to be taken	OPI (Office of Primary Interest)	Target Date
3.1 Reminder to compensation managers to inform their staff of the importance of ensuring that documents are properly completed prior to processing.	DGHR (Corporate Compensation)	April 30, 2010

7.2.2 VAC's pay offices are using different documentation to process or to put a person in pay.

The TBS Policies on Initial Appointment, Acting Assignment and Promotion, and the PWGSC PPIM require managers, staffing and Compensation staff to follow well defined procedures and practices when doing staffing and pay actions for employees that are taken-on-strength, promoted or offered acting assignments within a federal government department. According to these sources, a letter of offer specifying the date of appointment signed and dated by both a manager who has the appropriate staffing authority and the appointee constitutes the certificate of appointment.

The consultations with compensation managers and advisors confirmed that to put a person in pay or to activate a promotion and/or acting pay for acting assignments of more than four months, compensation advisors require a form 1450 duly completed, signed and dated by a manager with staffing delegated authority, and a letter of offer specifying the date of appointment and/or promotion signed and dated by both a manager who has appropriate staffing authority and the appointee.

However, the tests conducted in the different pay offices revealed an inconsistency about what is or are the official documents used to process or to put a person in pay.

For example, to start a payment for an acting assignment greater than four months, some pay offices use only the letter of offer and some regions use both the form 1450 and the letter of offer as official documents to process or to put a person in pay.

In the auditors' opinion, the fact that VAC is not using the same methodology to process pay across the department may increase the risk of errors in pay processing.

The form 1450 contains key data elements that are not in the letter of offer as well as additional signatures from responsible officials involved in the pay process. Requesting the compensation advisor to review and confirm the information on this form when entering pay transactions in the system is an important internal control to ensure segregation of duties and accuracy. The information contained on the form includes the type of staffing process, start and end dates, signature of the staffing officer, language requirements, etc.

Recommendation 4 (*Important*)

The National Compensation Manager should review the pay processes in order to ensure that all VAC pay offices use the same supporting documentation to process pay.

Management Response:

Management agrees that supporting documents must provide the required information in order to process pay. Human Resources Division has initiated a review of the 1450 process for both staffing and classification requests, with an objective of establishing common processes across the Department. This will allow the Department to establish documentation standards that are in line with departmental, central agency and legal requirements.

Management Action Plan:

Corrective Actions to be taken	OPI (Office of Primary Interest)	Target Date
4.1 Review of 1450 form and process.	DGHR (National Resourcing)	May 1, 2010
4.2 Communication to all compensation advisors of required documentation for pay actions.	DGHR (Corporate Compensation)	June 1, 2010

7.2.3 Letters of offer used to process pay are often prepared after the assignment has started

Even if in general the policies and procedures are well followed by managers, staffing and compensation staffs, the review pay transactions revealed that a significant number of letters of offer – 90 out of 294 or 31% of cases – were prepared by staffing after the fact and/or signed by a manager with staffing delegated authority and the employee after the employee had officially started in his/her new position or assignment. Of the 90 cases 20 were for regular pay, 39 for acting and the remaining 31 were for overtime for which the data extracted for the audit could not determine if it was for regular pay or for acting pay. The audit procedures traced all sample items to a letter of offer.

The auditors are convinced that issuing and/or signing letters of offer after the fact and using such documents to officially start a payment is an important stewardship weakness in the current staffing/pay processing system. Employees that receive their letter of offer after having officially started in a new position or acting assignment are intrinsically put in an underpayment situation until the letters of offer are received and processed in the RPS by a compensation advisor. The audit team is convinced that this problem can significantly affect employees' morale and level of satisfaction in regards to staffing and pay processing at VAC.

Recommendation 5 (Essential)

The Director General of Human Resources should review the staffing processes to ascertain that letters of offer are prepared and signed prior to the official starting date of any appointment to ensure that pay processing is not delayed.

Management Response:

Management is presently working in the development of the Common Human Resource Business Plan (CHRBP). We are presently doing the departmental scoping of key business processes. Once the staffing process is mapped, the CHRBP will provide clear procedures and with this implementation, no employees should commence the appointment prior to signing the official letter of offer.

The Department has implemented a File Review Framework to monitor staffing actions for compliance with staffing legislation, values and priorities. Staffing files are randomly sampled and reviewed for any deficiencies, including the requirement to have a signed letter of offer before the start of an appointment. Findings and recommendations will be reported to Senior Management for any corrective action.

Management Action Plan:

Corrective Actions to be taken	OPI (Office of Primary Interest)	Target Date
5.1 Implement a staffing file review process to monitor that appointments are made in compliance with legal requirements.	DGHR (National Resourcing)	Completed. First report due in April, 2010

7.3 – Timeliness of payroll transactions processing

Summary of findings

The audit found that delays in pay processing, particularly with the processing of acting and overtime pay, were encountered in the Head Office and Montreal pay offices during the year under review.

Audit Criteria	Conclusion
1. Pay transactions such as regular pay, acting pay, overtime pay, etc. are processed in a timely manner;	Partially met

The TBS *Risk Management Policy* stipulates that effective risk management practices ensure the continuity of government operations. Because risks are present in all government operations, proper management of a departmental activity such as the Compensation function is contingent upon the adoption of an effective and documented risk management strategy, which includes the assessment, and the identification of risks pertaining to the activity, and the development of proper risk mitigation strategies.

According to Treasury Board directives, an integrated risk management strategy is a continuous, proactive, and systematic process to manage, and communicate risk from an organization-wide perspective. It is about making strategic decisions that contribute to the achievement of an organization's overall corporate objectives.

The auditors' review of relevant documents and their consultations revealed that at the time of fieldwork, VAC didn't have a clearly defined analysis of strengths, weaknesses, opportunities and threats (SWOT), to manage unanticipated changes in compensation workload and staff.

The Treasury Board's Core Management Control (ST-10) requires that pay and related benefits transactions be coded accurately and in a timely manner to support accurate and timely information processing (core management controls are standardized control requirements for effective management and accountability). The timeliness of pay

transactions processing is governed by various instruments such as Treasury Board terms and conditions of employment, or collective agreements; however, many types of transactions have no specific applicable standard.

The different collective agreements have expectations in regards to the timeliness of processing of overtime in the federal government. Most of the agreements require that the employer endeavours to compensate overtime in cash by the sixth (6th) week after which the employee submits the request for payment.

As indicated earlier in this report, the tests conducted in this audit didn't find any significant problem with the accuracy of coding and recording of payroll transactions and the calculation of the different types of pay under study.

However, the results of the tests conducted and the consultations with managers revealed that delays were encountered in the processing of overtime and acting pay transactions at HO and in the Quebec Region at the end of the fiscal year under review.

Some managers mentioned that delays in the processing of overtime and acting pay in these regions reached between 3 to 5 months. The explanations provided for such long delays were:

- 1) A sudden increased in workload due to the renewal of a contingent of collective agreements; and
- 2) Shortage of compensation staff at Head Office and at the CESPBS-PWGSC in Montreal due to an unexpected number of departures and long term sick leave.

The processing of regular pay is rarely an issue as it is largely automated and operates with minimal manual intervention.

According to the auditors, delays in the processing of pay, particularly with the processing of acting and overtime pay can be problematic. Not only can they affect employees' morale and satisfaction, but they can also create increased activity for the compensation managers and advisors, who in these circumstances may have to deal with a greater number of inquiries and/or complaints from managers and employees.

Subsequent to the fieldwork for this audit, management implemented effective measures to address the backlog of acting and overtime pay transactions. These measures included: setting goals, working with other regions, casual staffing, overtime work, processing improvements, and dedicated processing days.

Recommendation 6 (Important)

The National Compensation Manager should:

- Provide input to the Integrated Human Resources and Business Plan to help ensure that appropriate measures are included to address compensation requirements and unanticipated changes in workload and employee availability; and
- Continue to work closely with the regions on the timeliness of pay processing.

Management Response:

Management does agree that the Manager of Corporate Compensation will provide input to the Integrated Human Resource Plan. Corporate Compensation will assist in the development of the departmental Integrated Human Resource and Business Plan. Corporate Compensation will remind the RDHRs and the Compensation Managers of the importance including and maintaining a mitigating strategy in their human resource plan to deal with business requirements and anticipated staff shortages.

In addition, the Business Continuity Plan for HR is up to date, contains an approach to address issues as needed and is updated on a regular basis.

Also, Corporate Compensation has prepared a specific contingency plan for compensation and informed Compensation Managers of requirements when staff shortage occurs.

Management Action Plan:

Corrective Actions to be taken	OPI (Office of Primary Interest)	Target Date
6.1 Integrated Human Resource and Business Plan will be reviewed periodically. Business Continuity Plan will be reviewed periodically.	DGHR (Corporate Compensation)	Annually and as required

7.4 – Adequacy and effectiveness of under and overpayments management

Summary of findings

The audit found that there are important weaknesses in the management control framework used to manage under and overpayments in the department.

Audit Criteria	Conclusion
1. Controls are in place to ensure that under and overpayments are discovered in a timely manner;	Partially met
2. Under and overpayments are corrected/collected quickly and accurately.	Partially met

7.4.1 The internal controls used to help discover underpayment and overpayment situations are insufficient to detect all over and under payments on a timely basis.

The audit team expected to find adequate internal controls in place to help compensation staffs discover underpayment and overpayment situations. However, consultations with compensation specialists revealed that the current controls used to help discover underpayment and overpayment situations are insufficient.

The interviews with compensation managers and advisors revealed that there are three main reasons why an overpayment can occur:

- An employee in an acting assignment continues to be paid after the assignment has been completed;
- A manual calculation error is made by the compensation advisor; and
- An employee on leave continues to be paid after their leave entitlements have been exhausted.

The interviews also revealed that there are four main ways where an underpayment can occur:

- An employee starts an acting assignment and the paper work is partially or not completed and processed in time;
- A manual calculation error is made by the compensation advisor;
- An employee has been reclassified but isn't receiving the increase in pay until the documentation is officially processed; and

- The employee's collective agreement has been renewed resulting in a higher pay, but the employee won't receive his or her higher pay rate until the paper work is processed at a later date.

The auditors' review of pay processes revealed that there is only one key control used consistently by managers across the department to discover overpayment and underpayment situations, e.g. managers' monthly reconciliation of SMS projections with their actual salary payments.

The consultations with compensation specialists revealed that the internal controls used at VAC to monitor and control underpayment and overpayment situations are inadequate. Particularly, the auditors found that two important controls are missing from VAC's internal control system used to help discover underpayment and overpayment situations:

- The compensation quality review process, that was conducted on a yearly basis by Head Office, has not been conducted for the past several years; and
- As previously mentioned in section 6.1.1, Finance doesn't have a post-payment verification process in place for payroll transactions as required by the FAA.

Reinstatement of the quality review process and the implementation of a post payment review process would help to detect under or overpayments. They would help reduce the risk of systematic errors occurring. They could help improve procedures to reduce the likelihood of errors occurring.

The audit found that the Human Resources Division was not updating the Finance Division on the balances receivable for overpayments. The Regional Pay System used by Public Works and Government Services Canada reports the actual amounts of the overpayments been recovered. These recoveries are entered into the Departments accounting system (FreeBalance). Subsequent to the audit, a new process was put in place where by the Human Resources Division provides the Finance Division with the account receivable balances at year end.

In the auditors' opinion, the current management control framework used at VAC to discover, manage and correct underpayments and overpayments situations, shows important weaknesses and are insufficient. The only internal control in place, used to discover irregularities in payments, is the managers' monthly budget reconciliations. In order to work efficiently, managers must seriously do this monthly exercise. This reality really increases the risk that such irregularities or errors go undetected and uncorrected for a long time, if managers don't use enough rigour in their monthly budget analysis.

Recommendation 7 (Essential)

The Director Labour Relations and Compensation Directorate in cooperation with the National Compensation Manager should:

- Review the processes used to detect overpayment and underpayment situations to ensure that well defined internal controls are established and implemented to detect and correct such irregularities in a timely manner; and
- Reinstate the quality review process in the compensation sector to ensure that a national compensation quality review of a sample of all types of pay transactions is conducted, at the national level, at least every second year.

Management Response:

Management agrees that processes should be in place to detect and report overpayments and underpayments. Management also agrees that the quality review of pay transactions must be conducted in order to ensure accuracy. Corporate Compensation has previously dealt with the process of overpayment based on the recommendation made by the “Financial Reporting Risk Assessment - Pre Audit”. A communication dated June 11, 2009 was sent to all compensation managers to ensure that compensation advisors inform, in a timely manner, the Servicing Accounting Office / Regional Finance Departments of the overpayment situations.

Corporate Compensation will discuss the underpayment process with Finance to determine if a process needs to be put in place.

The quality reviews for pay transactions has been reinstated as a priority in the 2010-2011 Integrated Human Resource and Business Plan.

Management Action Plan:

Corrective Actions to be taken	OPI (Office of Primary Interest)	Target Date
7.1 Process of overpayments.	DGHR (Compensation)	Completed
7.2 Meet with finance regarding underpayments to discuss the process.	DGHR (Corporate Compensation)	April 30, 2010
7.3 Undertake monitoring on a periodic basis as indicated in the Compensation Framework.	DGHR (Corporate Compensation)	March 30,2011

7.5 Compliance with legislation, VAC and TB policies and procedures, departmental financial and HR delegation of signing authorities, and collective agreements; and Adequacy of VAC management framework applicable to compensation against TB policies and procedures.

7.5.1 Compliance with legislation, VAC and TB policies and procedures, departmental financial and HR delegation of signing authorities, and collective agreements.

Summary of findings

The audit found that, even if there are weaknesses in the internal controls in place in the compensation sector, the processing of pay and pay related transactions is usually done accurately and in compliance with the legislation and different authorities.

Audit Criteria	Conclusion
1. Salary management processes comply with relevant legislative documents, Treasury Board (TB) policies and directives, VAC financial and HR delegation of signing authorities, collective agreements and PWGSC guidelines.	Partially met
2. The reference sources (collective agreements and terms and conditions of employment) are available and known by managers;	Met
3. Controls over struck-off-strength (SOS) or departure pay actions are adequate and in compliance with TB and VAC policies and procedures;	Met
4. Overtime is authorized and compensated in accordance with Treasury Board and VAC policies and regulations, and the various collective agreements and/or appropriate terms and conditions of employment;	Partially met
5. Managers effectively monitor and manage accumulated compensatory time off entitlement;	Partially met
6. There is a clear management control framework in place at VAC for managing acting assignments and acting pay, including well defined roles and responsibilities, established departmental policies, procedures and guidelines for the management of acting assignments and acting pay.	Not met
7. The management of acting assignments is done in accordance with government policies and guidelines;	Partially met
8. Employees in acting positions are paid in accordance with the various collective agreements and/or appropriate terms and conditions of employment;	Met

7.5.1.1 The salary management processes don't totally comply with relevant legislative documents, VAC and Treasury Board (TB) policies and directives, VAC financial and HR delegation of signing authorities, collective agreements and PWGSC guidelines.

On one hand, the analysis in preparation for the audit of financial statements revealed that responsibility centre managers are not required to confirm the availability of funds prior to initiating a pay-related transaction, such as hiring, or appointing an employee for an acting assignment, etc. This practice is increasing the risk that managers exceed their appropriation.

On the other hand, the consultations conducted with managers during this audit revealed that managers review their salary projections on a monthly basis using the Salary Management System (SMS) to ensure that there is no overrun in their salary budget.

While the head office Financial Planning section officially allocates salary dollars to each financial allotment, the fact that there is no commitment of funds done by individual responsibility centre managers at time of staffing is an internal control weakness. The fact that most managers personally review their salary projections and budgets regularly can be seen as a partial compensatory control. Senior managers need accurate information in the Salary Management System and Freebalance system to verify the availability of funds when they make staffing decisions.

The staffing process needs to be improved so the manager's financial signing authority and the availability of funds can be confirmed by Finance before a letter of offer is issued. One possible way to improve this would be that the Form 1450 (or a separate new form) be expanded to add a signature block where the responsibility centre manager would have to sign certifying, pursuant to section 32 of the FAA, that sufficient unencumbered balance is available, in their budget, to discharge the financial obligations resulting from the staffing action. Currently, the back of the 1450 form in section C says "In signing this section, a manager is certifying that funds are available to resource a position in the manner indicated on the form...". The process could be strengthened by putting this statement on the front side of the form, directly above the signature line.

Subsequent to the fieldwork for this audit, management instituted a senior management committee, headed by an ADM, to review all staffing processes. While it reduces the empowerment of individual managers, the committee will assure that funds are available at the corporate level. In addition, Human Resources, in cooperation with Finance, is in the implementation stage of a new process whereby they will verify that any manager, who signs a letter of offer, holds a valid delegated financial signing

authority.

Recommendation 8 (*Important*)

The Director General of Finance should take steps to ensure that all staffing transactions are committed and entered into Departmental accounting system (Salary Management System and Freebalance).

Management Response:

Management agrees and, in response to both this Audit and the Audited Financial Statements Project, Finance has implemented a process to provide a formal S32 FAA commitment certification for payroll transactions to Financial Services (S33 FAA Officers) on a monthly basis.

Management Action Plan:

Corrective Actions to be taken	OPI (Office of Primary Interest)	Target Date
8.1 Financial Planning to provide a formal S32 FAA certification to the S33 FAA Officer in Financial Services on a monthly basis, attesting to the availability of a sufficient unencumbered balance in Vote 1.	Finance	Completed (July 2009)

7.5.1.2 The approval process used to approve overtime shows weaknesses

The Terms and conditions of employment and the appropriate collective agreements require that properly approved overtime be compensated in cash and/or in equivalent leave with pay.

The results of the review of overtime pay transactions and the consultations with managers indicated that:

- In the majority of cases, overtime was authorized and compensated in accordance with Treasury Board and VAC policies and regulations, and the various collective agreements and/or Terms and Conditions of employment; and
- Management practices and controls of overtime are rigorous and include verbal and/or formal pre- approval of overtime by managers with proper delegated authority, certification of work done for employees working outside normal working hours, and certification that the overtime work performed by the

employees was essential and constituted the most cost-effective way of meeting their work requirements.

However, the file review and the consultations with managers and compensation managers and advisors also revealed important weaknesses in the actual approval process of overtime. Our consultations with managers also revealed that the Extra Duty Pay / Shiftwork Report and Authorization form (GC 179), used at VAC to approve and certify overtime, is missing some important information:

- There is no designated space on the form to print the name of the supervisor who authorizes the overtime and the date he/she signs it, which makes it difficult for anyone to know when the overtime was approved and by whom; and
- There is no space on the form to print the name of the manager who certifies and approves the overtime work pursuant to section 34 of the FAA, which makes it very difficult for anyone to verify and certify if the signatory actually has proper delegated authority to sign the form under section 34 of the FAA.

The auditors are in the opinion that:

- Using incomplete Extra Duty Pay / Shift work Report and Authorization forms (GC 179) to process overtime compensation may lead to errors in overtime processing and errors in payments;
- Using a form that doesn't specify the actual names of the supervisor and the manager who are approving and certifying the overtime work under section 34 of the FAA, makes it difficult for anyone to verify if the actual supervisor and manager have the proper delegated signing authority to do so; and
- Using a form that does not include a space for the date when the supervisor's authorizes the overtime, makes it difficult for anyone to know if the overtime was approved in advance.

Recommendation 9 (*Important*)

- **The Director General of Human Resources should make recommendations to PWGSC review and amend their Extra Duty Pay / Shiftwork Report and Authorization form (GC 179) in order to include spaces for printing the names of the supervisor and the manager who are authorizing and approving the overtime work, and to include a space for the date of signature in the supervisor's authorization section.**

Management Response:

Management agrees and has previously recommended the suggested changes in an e-mail to PWGSC on July 9th 2008.

Management Action Plan:

Corrective Actions to be taken	OPI (Office of Primary Interest)	Target Date
9.1 E-mail sent to PWGSC.	DGHR (Corporate Compensation)	Completed

7.5.1.3 There are problems with the way accumulated overtime pay and compensatory time are processed at VAC.

The auditor's review of VAC's Human Resources and Compensation websites failed to find specific policies, procedures, guidelines and definition of roles and responsibilities of managers in regards to the management and monitoring of accumulated compensatory leave entitlement in the department. However, the interviews with managers revealed that the majority of VAC's managers are monitoring and managing effectively and efficiently accumulated compensatory leave entitlements of their employees using the PeopleSoft system.

The audit also found that, due to budgetary constraints at VAC, managers are now strongly encouraged, by senior managers, to encourage their employees to take compensatory time off instead of cash for any overtime worked. This new requirement from senior managers forces managers to be more vigilant in managing and controlling the accumulated compensatory leave balances of their employees in order to avoid any payoff for unused accumulated compensatory leave at the end of the fiscal year.

In this perspective, the auditors observed that the majority of managers are following senior managers' recommendations. The majority of managers interviewed confirmed that they are revising all the compensatory leave entitlements of their employees midway through, and near the end of, the fiscal year to ensure that employees, that have accumulated compensatory leave balances, take their time off before year end to avoid any pay off.

However, managers interviewed also said that in order to be more efficient and effective in the management and control of the compensatory leave balances of their employees, they need to have access to accurate and up-to-date information at all times. On this

matter, the auditors' consultations revealed that the information used by managers to monitor and control the compensatory leave balances of their employee, e.g. PeopleSoft, is not always up-to-date and/or accurate to enable them to take informed decisions when approving compensatory leave for their employees. This is because different stake holders may not submit and/or approve the transactions in a timely fashion.

The auditors are in the opinion that:

- Not having accurate and up-to-date information on the leave entitlements of each employee, at all times, can lead managers to approve compensatory leaves by error and put the department in an overpayment situation; and
- Not having up-to-date information could also lead to unintended payout or cash out at the end of a fiscal year for unused leave balances.

Recommendation 10 (*Important*)

The Director General of Human Resources should:

- **Remind staff and managers that overtime forms should be received and processed in a timely fashion; and**
- **Ensure submitted compensatory leave overtime forms are processed in PeopleSoft on a timely basis.**

Management Response:

Reminder will be sent to all staff and managers to properly complete overtime forms and remit to compensation units in a timely fashion. Overtime forms should be processed in PeopleSoft on a timely basis as per specific collective agreements.

Management Action Plan:

Corrective Actions to be taken	OPI (Office of Primary Interest)	Target Date
10.1 Reminder to staff and managers.	DGHR	March 31, 2010
10.2 Message will be sent to compensation managers to ensure compensatory leave is entered in PeopleSoft in a timely basis.	DGHR (Corporate Compensation)	April 30, 2010

7.5.1.4 There are weaknesses around the management of acting assignments and acting pay at VAC, particularly when it is the time to renew, extend or amend an acting assignment and continue or discontinue acting pay.

The auditors expected to find established departmental policies, procedures and guidelines, including well defined roles and responsibilities, for the management of acting assignments and acting pay at VAC.

Consultations with managers, compensation managers and advisors also revealed that there are misunderstandings about the roles and responsibilities of VAC's manager, HR and Compensation staffs in regards to the management of acting assignments and acting pay, particularly at the end of an assignment when it is the time to renew, extend or amend the assignment and continue or discontinue acting pay.

The auditors are in the opinion that not having clear departmental policies, guidelines and definition of roles and responsibilities around the management of acting appointments, significantly increases the risk of errors in pay processing and acting payments. This is particularly true at the end of an assignment when it is the time to renew, extend, amend and/or stop an acting appointment.

Recommendation 11 (*Essential*)

The Director General of Human Resources should:

- **Clarify the roles and responsibilities of managers and HR staff around the management of acting appointments, particularly around the management of acting appointment termination or extension; and**
- **Take steps to insure that acting assignments are terminated at the completion date of the appointment if supporting documentation to extend the appointment has not been received by compensation staff.**

Management Response:

Management recognizes the importance of clearly defined roles in the management and processing of staffing actions. The development and implementation of Common Human Resources Business Practices will allow the Department to establish consistent procedures for the management of acting assignments and acting pay. In the interim, the Department will establish and communicate best practices that will allow the efficient administration of those actions.

Compensation will terminate all actings at end date if no supporting documents for an extension are received in compensation.

Management Action Plan:

Corrective Actions to be taken	OPI (Office of Primary Interest)	Target Date
11.1 Develop a communication plan to educate managers and HR staff on the individual roles and responsibilities with respect to managing acting appointments and assignments.	DGHR (National Resourcing)	June 1, 2010

7.5.2– Adequacy of VAC management framework applicable to compensation against TB policies and procedures.

Summary of findings

Overall, with the exception of weaknesses found with the exchange of information and documentation that is needed to process pay accurately and in a timely manner, the management framework applicable to the compensation function is adequate and effective. The overall organizational structure and roles and responsibilities of Compensation staff are well defined, documented and communicated. The organization provides compensation employees with the necessary training, tools, resources and information to support the discharge of their responsibilities, and there are suitable policies and procedures in place to support the development and management of human resources in the area of compensation.

Audit Criteria	Conclusion
1. A clear organizational structure (resources and work allocation, controls and communication plan) is in place to ensure effective and efficient compensation service delivery.	Partially met
2. Roles and responsibilities of Compensation staffs are well defined, documented and communicated.	Met
3. Core Management Control (PPL-4) - The organization provides compensation employees with the necessary training, tools, resources and information to support the discharge of their responsibilities (PPL-4).	Met
4. Core Management Control (PPL-7) – Suitable policies and procedures to support the development and management of human resources in the area of compensation are established, maintained, and communicated.	Met
5. A corporate risk and mitigation strategy, specific to Compensation activities, is in place and updated frequently.	Partially met

7.5.2.1 The communication and information exchange from Managers, Staffing, Pay and Finance with regards to pay processing shows important weaknesses

To enable compensation managers and advisors to process pay accurately and in a timely manner, the department needs to have a clear and understandable process supported by a clear communication plan. The complexity of pay processing requires government departments to have a well defined process in which accurate information and documentation, required to process pay, is transmitted and forwarded to compensation managers and advisors in a timely manner.

The interviews with compensation managers and advisors, in two compensation offices, revealed important gaps in the information and documentation from managers and staffing to compensation and finance staff related to the processing of pay. In particular, the audit team found that the information and documentation required to process pay accurately and in a timely manner, particularly the forms 1450 or amendments thereto, are not always submitted or forwarded to compensation managers and advisors in a timely basis. An example that came out during the interviews relates to the fact that compensation staff are not always made aware of changes made by managers and staffing to an employee's pay situation or status.

In the auditors' opinion, not having clear communication strategies and expectations around information and documentation exchange from Managers and Staffing, on the one hand to Compensation and Finance staffs on the other hand with regards to the processing of pay, can lead to significant delays in pay processing and errors in payments. This could be resolved by promulgating processing instructions and turnaround times to line managers and their administrative staff.

Recommendation 12 (*Important*)

The Director General of Human Resources should clarify and communicate VAC's expectations around information and work processes from managers and staffing, to compensation and finance when it relates to the departmental processing of pay.

Management Response:

Management agrees with the above recommendation and has already implemented work processes for managers and staffing. All managers are required to attend mandatory training for the delegated signing authority, which clarifies the work processes. Staffing is currently in the process of reviewing the list of sub-delegated managers to ensure all are properly identified. As well, a process to ensure that managers delegated to staff positions also have the necessary delegated financial

authority.

The Human Resources Division is presently streamlining the current work process in order to develop the Common Human Resources Business Plan (CHRBP) for VAC. In addition, the DGHR will also remind staffing and managers of their responsibility when it relates to the processing of pay.

Management Action Plan:

Corrective Actions to be taken	OPI (Office of Primary Interest)	Target Date
12.1 Identify processes that need to be streamlined for the CHRBP.	DGHR	April 30, 2011
12.2 Remind all managers and staffing of their roles and responsibilities.	DGHR	April 30, 2010

8.0 DISTRIBUTION

Deputy Minister

Chief of Staff to the Minister

Departmental Audit Committee

Senior Assistant Deputy Minister, Policy, Program and Partnerships

Assistant Deputy Minister, Service Delivery and Commemoration

Assistant Deputy Minister, Corporate Services

Director General, Human Resources Division

Director General, Communications Division

Director General, Departmental Secretariat and Policy Coordination

General Counsel, Legal Service Unit

Executive Advisers to the Deputy Minister

Director, Briefing, Coordination and Liaison

Director General Finance Division

Director General, Policy and Programs Division

Office of the Comptroller General (internal audit registrar)

Office of the Auditor General

APPENDIX A – AUDIT CRITERIA AND CORE MANAGEMENT CONTROLS

Audit Objective 1	To assess the adequacy, accuracy and completeness of payroll processing at VAC	
Audit Criteria	Criteria Met/Partially Met/Not Met	Actual Condition and Cause/Findings
1.1) There are well defined procedures for all pay transactions and compensation managers and advisors are well aware of such procedures.	Met	<p>The Personal Pay Input Manual (PPIM) defines the key procedures that compensation employees need to follow and use for the most common pay transactions.</p> <p>There is also a mandatory training for compensation advisors provided by Public Works and Government Services (PWGSC) that help ensuring compensation employees' awareness and understanding of such procedures.</p>
1.2) Core Management Control (ST-10) – Financial payroll transactions are coded and recorded accurately to support accurate information processing.	Met	<p>The TBS Stewardship Core Management control (ST-10) requires departments to have in place proper procedures and controls to ensure that financial payroll transactions are coded and recorded accurately to support accurate information processing.</p> <p>The interviews with compensation advisors and managers and onsite observations of processes revealed that effective controls are in place to ensure accuracy of financial payroll transactions coding and processing (e.g. pre-verification done by a peer, batch totals analysis, reconciliation, and post-verification of cheques and payments before they are released).</p> <p>The review of VAC's pay processes revealed that the most important control in place in the compensation sector to ensure the accuracy of coding and processing of financial payroll transactions is the peer review process. This process requires that a second compensation advisor (verifier) verifies the accuracy of the information inputted in the Regional Pay System (RPS) by a first compensation advisor before the information is released to finance for payments. This control insures the accuracy of financial pay transactions before the information is officially forwarded to finance for final approval and payments.</p>
1.3) Pay transactions such as acting pay, overtime pay, etc. are processed in accordance with VAC service standards and the conditions of the appropriate collective or terms and conditions of employment;	Partially Met	See report page 14 for detailed explanations.

1.4) Core Management Control (ST-13) – There is appropriate segregation of duties in payroll processing at VAC. Individuals responsible for initiation of FAA section 32 - commitment and/or approval of payment for transactions (section 34) must not be the same as the person responsible for payment (section 33 of the FAA - requisition).	Met	The TBS Stewardship Core Management control (ST-13) requires departments to have appropriate segregation of duties in the processing of any financial transaction such as payroll transactions. The auditors' review of VAC's processes and tests of financial pay transactions revealed that the processing of financial payroll transactions are done in accordance with sections 32, 34 and 33 of the FAA. The auditors observed that the individual responsible for initiation (FAA section 32 - commitment) and/or approval for payments of financial payroll transactions (FAA section 34) is never the same person as the individual responsible for making the payments (section 33 - requisition).
1.5) Payments (section 33 of the FAA) for all pay transactions are done in compliance with TB and VAC policies and regulations; Transactions are randomly reviewed by a finance officer before being officially approved and submitted to PWGSC through the Regional Pay System (RPS) for processing;	Not met	See report page 14 for detailed explanations.
1.6) Core Management Control (ST-11) – Appropriate system application controls exist.	Met	Based on consultations conducted with compensation managers and advisors across the department, the auditors found that there are adequate controls in the Regional Pay System to prevent an employee from being able to input payroll transactions and to verify and/or approve the same transactions at the same time. Logical access controls exist to ensure access to systems, data and programs, is restricted to authorized users, e.g. systems require users to logon using unique user name and password.
Audit Objective 2	To assess the legitimacy, accuracy and completeness of the supporting documentation used to process pay transactions at VAC	
2.1) Core Management Control (ST-12) Supporting documentation exist for all pay transactions and it is recorded and maintained in accordance with laws and regulations;	Met	The file reviews revealed that supporting documentation exists for all pay transactions and this information is maintained in accordance with generally accepted accounting principles as well as government laws and regulations.
2.2) The supporting documentation used to process pay transactions is legitimate, accurate and complete;	Partially met	See report page 17 for detailed explanations.

Audit Objective 3	To Assess the timeliness of payroll transactions processing at VAC	
3.1) Pay transactions such as regular pay, acting pay, overtime pay, etc. are processed in a timely manner;	Partially met	See report page 21 for detailed explanations.
Audit Objective 4	To assess the adequacy and effectiveness of under and over payments management.	
4.1) Controls are in place to ensure that under and overpayments are discovered in a timely manner;	Partially met	See report page 24 for detailed explanations.
4.2) Under and overpayments are corrected/collected quickly and accurately.	Partially met	See report page 24 for detailed explanations.
Audit Objective 5.1	To assess compliance with legislation such as VAC and TB policies and procedures, departmental financial and HR delegation of signing authorities, and collective agreements.	
5.1.1) Salary management processes comply with relevant legislative documents, Treasury Board (TB) policies and directives, VAC financial and HR delegation of signing authorities, collective agreements and PWGSC guidelines.	Partially met	See report page 27 for detailed explanations.
5.1.2) The reference sources (collective agreements and terms and conditions of employment) are available and known by managers;	Met	<p>The TBS Standards on Knowledge for Required Training (2007) require managers at all Levels to have a good knowledge and understanding of the terms and conditions of employment including the collective agreements.</p> <p>The interviews with managers revealed that the majority of managers were somewhat to very knowledgeable of the different terms and conditions of employment and the collective agreements that relates to their employees. We also found that managers had copies of the documents on hand or knew where to go to get them or get answers to questions they may have.</p>
5.1.3) Controls over struck-off-strength (SOS) or departure pay actions are adequate and in compliance with TB and VAC policies and procedures;	Met	The Treasury Board Policy on Pay administration requires departments to establish a departure report and check list that requires specific organizations such as the human resources, security, materiel management, administration, library and financial services to sign off before the final payment to the employee is released, this to minimize the possibility of an employee leaving the federal Public service owing money or any other material.

		The auditors' review of internal controls in the pay administration at VAC and our consultations with managers and compensation managers and compensation advisors revealed that VAC has a very efficient system in place to ensure that all possible lost (money or other material) for the department are minimized when an employee leaves the department, i.e. the employee departure clearance form (DVA 1403E or DVA1403F). When an individual is leaving a position with Veterans Affairs, regardless of whether it is a permanent departure, temporary departure for a period of three months or more, or for an assignment / secondment within the Portfolio, it is necessary to complete an Employee Departure Clearance form (DVA 1403E or DVA1403F). The employee departure clearance form is used as a control measure to ensure that employees don't receive their last payment until the check list is completed and signed by all parties.
5.1.4) Overtime is authorized and compensated in accordance with Treasury Board and VAC policies and regulations, and the various collective agreements and/or appropriate terms and conditions of employment;	Partially met	See report page 27 for detailed explanations.
5.1.4.1) Managers effectively monitor and manage accumulated compensatory time off entitlement;	Partially Met	See report page 27 for detailed explanations.
5.1.5) There is a clear management control framework in place at VAC for managing acting assignments and acting pay, including well defined roles and responsibilities, established departmental policies, procedures and guidelines for the management of acting assignments and acting pay.	Not Met	See report page 27 for detailed explanations.
5.1.5.1) The management of acting assignments is done in accordance with government policies and guidelines;	Partially met	<p>Acting appointments provide managers with some flexibility to deal with short-term human resources requirements to cover maternity leave, illness, language training, etc.</p> <p>Consultations with managers revealed that managers usually use acting appointments as a fast track HR appointment system to deal with short term human resources needs to cover short-term HR needs such as illnesses of an employee, maternity leave, language training, unexpected departure of an employee, etc.</p> <p>However, the Public Service Employment Act (PSEA) requires managers from federal government departments to follow strict rules when using non-advertised appointment processes to deal with short</p>

		<p>term human resources needs. One of the requirements of the Act is to ensure that any internal non-advertised acting appointments of greater than four months be based on specific merit criteria. Under the PSEA, merit can be characterized by two facts:</p> <ul style="list-style-type: none"> • The person appointed must meet the essential qualifications of the position and; • The person appointed preferably meets some current or future organizational and/or operational needs. <p>In this perspective, managers should always insure that acting appointments of more than four months are done fairly, transparently and free of personal favoritism.</p> <p>Furthermore, the Directive on the Terms and Conditions of employment, the TBS Policy on Acting Assignment and the TBS Terms and Condition of Employment Policy require HR and Compensation staff to follow well defined procedures and practices when doing staffing and pay actions for employees that are offered acting assignments and/or appointments within federal government departments. According to these sources, a letter of offer signed and dated by both a manager with proper staffing authority and the appointee specifying the date of appointment constitutes the certificate of appointment that is used to commence an acting pay in the PWGSC Regional Pay System (RPS) for acting appointments greater than four months. For acting of less than four months, an electronic request (email) coming from the managers with all required information about the acting assignment and/or appointment is acceptable.</p> <p>In this regard, file reviews showed that a significant number of letters of offer for acting appointments greater than four months were dated and/or signed after the fact, i.e. after the effective appointment date of the appointee.</p> <p>The interviews with managers and compensation managers and advisors revealed that this lateness in the issuance and signing of letters of offer for acting appointments greater than four months is recognized as a systemic problem that has an impact in two important areas:</p> <ul style="list-style-type: none"> • It affects the turnaround time in pay processing for cases for which letters of offer were prepared, sent and signed after the fact; • It affects significantly employees' perception of fairness in the process and their overall satisfaction with HR practices and Pay processing in the department.
5.1.5.2 Employees in acting positions are paid in accordance with the various	Met	The TBS Directive on Terms and Conditions of Employment stipulates that "when a person with the delegated authority requires a person to substantially perform duties of a higher classification level for

collective agreements and/or appropriate terms and conditions of employment;		<p>at least the qualifying period specified in the relevant collective agreement or terms and conditions of employment applicable to the person's substantive level, the person is to be paid acting pay calculated from the date the person began to perform such duties."¹</p> <p>According to the collective agreements, when an employee is required by the Employer to substantially perform the duties of a higher classification level in an acting capacity and performs those duties for at least three (3) consecutive working days or shifts, the employee shall be paid acting pay calculated from the date on which he or she commenced to act as if he or she had been appointed to that higher classification level for the period in which he or she acts.</p> <p>In this regard, our review of a sample of acting pay transactions showed no error in the calculation of acting pay for employees that were acting at VAC during the 2008-2009 fiscal year. Accordingly, the auditors can certified with a high level of confidence that employees in acting positions at VAC during the 2008-2009 fiscal year were paid in accordance with the various collective agreements and/or appropriate terms and conditions of employment.</p>
Audit Objective 5.2	To assess the adequacy of VAC management framework applicable to compensation against TB policies and procedures.	
5.2.1) A clear organizational structure (resources and work allocation, controls and communication plan) is in place to ensure effective and efficient compensation service delivery;	Partially Met	See report page 34 for detailed explanations.
5.2.2) Roles and responsibilities of Compensation staffs are well defined, documented and communicated;	Met	<p>Documentation of roles and responsibilities is part of recognized good management practices. It serves as a reference for accountabilities and authorities.</p> <p>The auditors' review of VAC's Compensation website revealed that the generic functions of VAC's Compensation staff are clearly defined, documented and communicated in the Introduction of the Compensation Function Policy that is located on VAC's Compensation website.</p> <p>Consultations with compensation managers and compensation advisors also revealed that the more specific roles and responsibilities of VAC's Compensation Managers (AS-04), Compensation and Benefit Coordinators (AS-03), Compensation and Benefit Consultants/Advisors (AS-02) and Compensation Advisor Trainees (AS-01) are well defined and documented in specific work descriptions that are available on demand through HR and Compensation staff.</p>
5.2.3) Core Management Control	Met	One of the TBS Core Management Control requires federal government departments to provide

¹ From the TBS Directive on Terms and Conditions of Employment (2009: 14).

(PPL-4) - The organization provides compensation employees with the necessary training, tools, resources and information to support the discharge of their responsibilities (PPL-4);		<p>employees from the pay and related benefits activity with the necessary training, tools, resources and information to support the discharge of their responsibilities.</p> <p>Consultations with compensation managers and advisors across the country revealed that, in general, employees working in the Compensation and Benefit Sector are satisfied with the training, tools, resources and information they receive and get to support the discharge of their responsibilities. According to them, they have access to sufficient tools, (such as, software, equipment, work methodologies and standard operating procedures) and training, and their development plans are usually resourced and auctioned by their managers.</p>
5.2.4) Core Management Control (PPL-7) – Suitable policies and procedures to support the development and management of human resources in the area of compensation are established, maintained, and communicated.	Met	<p>To ensure proper and competent compensation services delivery at VAC, the department should have or uses clear policies and procedures to support the development and management of human resources in the area of compensation, and this information should be maintained and communicated to all compensation employees.</p> <p>Consultations with compensation managers and advisors revealed that VAC's Compensation staffs are fully dependent on PWGCS's policies, manual of procedures such as the Personnel Pay Input Manual (PPIM), and systems to support the development and management of human resources in the area of compensation.</p> <p>The interviews also revealed that all updates to PWGSC's policies, manual of procedures and systems are forwarded electronically to compensation employees at the time or shortly after they are released to ensure that they are aware of such changes and kept up to date on PWGCS compensation policies and procedures.</p> <p>Also, if the changes in PWGSC policies, procedures and systems impact significantly the work compensation employees are doing at VAC, meetings with VAC's compensation experts and/or managers will be organized in the different pay offices across Canada to ensure compensation employees' understanding of such changes.</p>
5.2.5) A corporate risk and mitigation strategy specific to Compensation activities is in place and updated frequently;	Partially met	See report page 34 for detailed explanations.

APPENDIX B – SUMMARY OF ERRORS FOUND IN THE REVIEW OF A SAMPLE OF 294 PAY TRANSACTIONS

Number of Errors	Description of Errors
1	No signature from the employee on the letter of offer.
3	Letter of offer not dated.
90	Letter of offer prepared and/or signed after assignment had started.
1	Employee continued to receive acting pay without supporting documentation.
3	No support that overtime was approved in advance.
10	Document not properly completed.
2	Position number on Letter of Offer does not match position number on the form 1450.
3	Dates on 1450 are not specified or do not match dates on Letter of Offer.
3	Form not dated.

The review of a statistically representative sample of 294 pay transactions revealed two important problems:

- a) A significant number of the letters of offer tested in this audit were prepared and/or signed after the fact, i.e. after the assignment had started; and
- b) An important number of documents that were used to process pay, such as the form 1450, the letters of offer, the overtime sheet, etc. were not fully or properly completed.

APPENDIX C – KEY AUTHORITIES FOR PAY AND COMPENSATION IN THE FEDERAL GOVERNMENT AND VAC

- Comptrollership Policy on Pay Administration
- Different Collective Agreements
- Government Employees Compensation Act
- Pay Administration Guide
- Policy Framework for the Management of Compensation
- Public Service Employment Act
- Public Work Government Services Personnel Pay Input Manual (PPIM)
- Salary Management System Training Manual
- TB Acting Assignment Policy/Guide
- TB Guidelines for Termination of Employment
- TB Initial Appointment Policy
- TB Terms and Conditions of Employment Policy
- VAC's Client Service Standards – Compensation
- VAC's Table of Delegation HR Authorities
- Term Employment Policy
- Terms and Conditions of Employment for Students
- Terms and Conditions of Employment for the Executive Group

APPENDIX D – GLOSSARY

Term	Description
1450	Request for Personnel Services form 1450 contains vital information on the staffing process used by VAC. It has sections dealing with Classification Action Requested, Type of Position (indeterminate or Term), Language Requirements, etc. As well it has signatures from Human Resources that enhance the segregation of duties.
Acting Assignment	Means a situation where an employee is required to perform temporarily the duties of a higher classification level for at least the qualifying period specified in the collective agreement or the terms and conditions of employment applicable to the employee's substantive level;
CESPBS-PWGSC	Centre of expertise shared pay and benefits services of Public Works and Government Services Canada in downtown Montreal contracted by the Ste. Anne's Hospital (SAH) to process pay for the Quebec region and district offices and the SAH regular employees.
Core Management Controls	Core Management Controls were developed by Treasury Board as an internal audit framework and tool to support the Chief Audit Officer's opinion on internal control.
Freebalance	Freebalance is the accounting system used by VAC to record its revenues and expenses. It will be used to create VAC's Financial Statements.
PeopleSoft	This is a software program that is primarily used to track staffing and leave transactions.
Regional Pay System	The system used by the Federal Government to process its payroll transactions. It is run and maintained by the Department of Public Works and Services Canada.
Salary Management System	The Salary Management System is used to help managers track and forecast their salary costs.

APPENDIX E – LIST OF ACRONYMS

Acronym	Description
AED	Audit and Evaluation Division
CESPBS-PWGSC	Centre of expertise shared pay and benefits services of Public Works and Government Services Canada
FAA	Financial Administration Act
HO	Head Office
OGD	Other Government Department
PPIM	Personnel Pay Input Manual
PWGSC	Public Works and Government Services Canada
RPS	Regional Pay System
SMS	Salary Management System
TB	Treasury Board
TBS	Treasury Board Secretariat
VAC	Veterans Affairs Canada