

**PRIVY COUNCIL OFFICE**

**Audit of Compensation  
(Pay and Benefits)**

Audit and Evaluation Division

**Final Report**

**February 4, 2011**



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### List of Acronyms Used

EX	Executive (Management Category)
FAA	Financial Administration Act
FMS	Financial Management System
FTE	Full Time Equivalent
HR	Human Resources
HRMS	Human Resources Management System
LWOP	Leave Without Pay
MCF	Management Control Framework
OGD	Other Government Department
PCO	Privy Council Office
PS-GL	Payroll System General Ledger
PWGSC	Public Works and Government Services Canada
RPS	Regional Pay System
SAP	PCO's financial system application
SMS	Salary Management System
SOS	Struck off Strength
SPS	Standard Payment System
TB	Treasury Board
TBS	Treasury Board Secretariat
TOS	Taken on Strength

## **Executive Summary**

### **Objective**

The objective of the Audit of Compensation (Pay and Benefits) was to assess the adequacy and effectiveness of controls in place for the delivery of pay and benefits services to Privy Council Office (PCO) staff. More precisely, the objective of the audit was to provide PCO management with independent assurance that the administration of pay and benefits is controlled, has effective and efficient processes, and complies with applicable policies, acts and regulations.

### **Scope**

The audit examined the department's Management Control Framework (MCF) for the delivery of pay and benefits services to staff, including identification, organization and communication of departmental responsibilities for pay and benefits; integration of PCO departmental processes with TBS and PWGSC centralized pay and benefits systems and requirements; management of employee pay and benefits records for the 2009 calendar year; recording of information in PCO's human resources and financial information systems; and management oversight of pay and benefits expenditures and administrative matters.

Testing of transactions was limited to the review of regular and overtime payroll transactions for PCO staff processed during the 2009 calendar year. The audit excluded overtime compensated through compensatory time-off, which does not result in a payroll transaction. The total population under review included 1,176 employee files, representing a total salary and benefits expenditure of \$87,721,943. Of this amount, overtime expenditures totalled \$2,376,394 or 2.7% of total salaries and benefits. Although the sample of transactions selected for review involved only departmental staff, PCO's compensation processes are also used to deliver pay and benefits services to Ministerial staff and to staff of Commissions of Inquiry.

### **Conclusion**

Complex pay and benefits services are delivered in compliance with relevant legislative requirements, policies, directives and collective agreements. Departmental financial systems are well integrated with the PWGSC centralized pay system. However, data integrity in the human resources information system (PeopleSoft) should be improved; certain elements of the organizational framework should be strengthened; and there is a need for better retention of evidence to demonstrate the application of key operational controls and to support individual pay transactions.

## Summary of Findings

The audit findings are detailed in the body of the report. In summary, the main findings are as follows:

**Organizational Framework.** Although PCO prepares two strategic HR planning documents, the organizational framework for the PCO Compensation function requires improvement in the areas of operational planning, risk assessment, and performance measurement.

**Systems Integration.** PCO departmental financial systems are well integrated with the PWGSC centralized pay system. However, data recorded in the PeopleSoft human resources information system, used to determine benefits such as pension and severance entitlements, is not always accurate, complete or timely.

**Pay Processing.** Pay and benefits services are consistently delivered to PCO employees, and comply with relevant legislative documents, TB policies, directives, and collective agreements. However, some internal procedures lack completeness and consistency in their application, verification of transactions is not always evidenced, and pay files are not always complete.

## Recommendations

The audit resulted in the following three recommendations directed to the Assistant Deputy Minister, Corporate Services Branch:

1. to expand the operational HR Business Plan to include risk and mitigation strategies and goals specific to the Compensation function, a rationalization of FTEs for Compensation advisor positions and expenditures, and more detailed performance standards for the delivery of pay and benefits services.
2. to identify the number of PeopleSoft files which lack complete or accurate data, and prioritize action to ensure accurate and timely integration with PWGSC's payroll transaction system (RPS).
3. to document decisions regarding best practices identified at bi-weekly staff meetings and communicate to all Compensation staff; and ensure that processing controls are carried out in a consistent manner with appropriate supporting evidence, in particular, verification of FAA 34 delegation of authorities, verification of the payroll register, evidence of peer review, and completion of departure sign-offs.

## **Management Response**

The PCO Compensation and Benefits Unit is a highly professional and dedicated team, which strives to provide accurate and timely services to its clients: the employees, managers and exempt staff of the Privy Council Office. The results of this audit confirm that PCO employees are paid in accordance with collective agreements and terms and conditions of employment. That being said, the audit results also point to the requirement for administrative improvements which management accepts in the spirit of continuous improvement. An action plan is described in Section 4.0, Management Response and Action Plan.

## **Statement of Assurance**

In my professional judgment as Chief Audit Executive, sufficient and appropriate audit procedures have been conducted and evidence gathered to support a reasonable level of assurance as to the accuracy of the conclusion provided and contained in this report. The conclusion is based on a comparison of the conditions, as they existed at the time, against pre-established audit criteria that were agreed on with management. The conclusion is applicable only to the entity examined.

**ORIGINAL SIGNED BY**

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**SIGNATURE OF CHIEF AUDIT EXECUTIVE  
JIM HAMER**

## **1.0 Introduction**

### **1.1 Authority**

The Audit of Compensation (Pay and Benefits) was approved in August 2009 as part of the Privy Council Office (PCO) Risk-Based Internal Audit Plan 2009-2010 to 2011-2012.

### **1.2 Background**

Responsibility for the delivery of pay and benefits to federal employees is shared by three key organizations: Treasury Board Secretariat (TBS); Public Works and Government Services Canada (PWGSC); and departments.

The primary role of TBS is to establish pay and benefits policies, directives, and guidelines addressing matters such as rates of pay, collective agreements, travel and relocation, dental and health care insurance, life and disability insurance, and employee leave arrangements (e.g. sick leave, annual leave, personal leave, maternity and parental leave, education leave, leave without pay).

PWGSC is responsible for administrative strategies, systems and processes for the control, validation and integrity of compensation data to support management of pension, pay and benefits products. These include provision of pay and pension processing systems; remittance and general ledger accounting functions for the Regional Pay System (RPS) used by departments to process pay transactions; advisory and training services related to pay and insurance benefits; and pension administration for the Public Service Superannuation Act.

Departments, as part of their Human Resources (HR) management responsibilities, provide certain pay and benefits services directly to employees. These services include administration of hiring, transfer and separation processes; establishment and maintenance of employee records (e.g. pay rates, payroll deductions, direct deposit information, leave, pensionable service); on-line processing of bi-weekly payroll transactions through PWGSC's Regional Pay System; management and processing of overtime, acting pay and leave without pay (LWOP) transactions; and information and advisory services to employees regarding pay and benefits provisions.

As reported in the PCO Report on Plans and Priorities 2010-2011, the total departmental expenditure for the 2010-2011 fiscal year is estimated to be \$143,948,000 with a Full-time Equivalent (FTE) number of staff of 1,040. Approximately 70 percent of PCO's budget is spent on salaries. Over half of the departmental workforce is classified in three occupational groups: Administrative Support (AS, 31%); Economics and Social Sciences Services (EC, 14%); and Executive (EX, 11%).



PCO uses PeopleSoft as its Human Resources Management System (HRMS); SAP as its Financial Management System (FMS); and a separate Salary Management System (SMS). PeopleSoft and SAP are not maintained by PCO, but are used under a shared services arrangement with TBS.

### **1.3 Objective**

The objective of the audit was to assess the adequacy and effectiveness of controls in place for the delivery of pay and benefits services to PCO staff. More precisely, the objective of the audit was to provide PCO management with independent assurance that the administration of pay and benefits is controlled, has effective and efficient processes, and complies with applicable policies, acts and regulations.

### **1.4 Scope**

The audit examined the department's Management Control Framework (MCF) for the delivery of pay and benefits services to staff, including:

- identification, organization and communication of departmental responsibilities for pay and benefits;
- integration of PCO departmental processes with TBS and PWGSC centralized pay and benefits systems and requirements;
- management of employee pay and benefits records for the 2009 calendar year;
- recording of information in PCO's human resources and financial information systems; and
- management oversight of pay and benefits expenditures and administrative matters.

Testing of transactions was limited to the review of regular and overtime payroll transactions for PCO staff processed during the 2009 calendar year. The audit excluded overtime compensated through compensatory time-off, which does not result in a payroll transaction. The total population under review included 1,176 employee files, representing a total salary and benefits expenditure of \$87,721,943. Of this amount, overtime expenditures totalled \$2,376,394 or 2.7% of total salaries and benefits.

Although the sample of transactions selected for review involved only departmental staff, PCO's compensation processes are also used to deliver pay and benefits services to Ministerial staff and to staff of Commissions of Inquiry.

## 1.5 Criteria

As a basis for concluding on the objective of the audit, the following audit criteria were developed and agreed to by management as relevant standards of performance and control:

1. The organizational structure (direction, roles and responsibilities, resources and work allocation, and communication) is appropriate and ensures efficient and effective service delivery and financial integrity.
2. The integration of PCO departmental processes (HRMS, SMS, and FMS) with TBS and PWGSC centralized pay and benefits systems and associated procedural and financial controls and requirements for the management of compensation and overtime ensures the efficiency and effectiveness of the compensation administration process.
3. Executive and regular pay services are consistently and efficiently delivered to PCO employees and comply with relevant legislative documents, TB policies, and directives, and collective agreements.
4. The salary management processes for the authorization and recording of information in PCO's HR and financial management systems are appropriately controlled and comply with PCO financial and HR delegation of signing authorities.
5. Management receives sufficient, complete, timely, and accurate information on pay and benefits expenditures and administrative matters.

Detailed audit criteria are set out in [Appendix A](#).

## 1.6 Approach and Methodology

The planning phase of the audit included a review of roles, responsibilities and process requirements; identification of management concerns and risks relating to pay and benefits administration; and the selection of specific issues and processes for further assessment. The examination phase employed a number of methodologies, including:

- interviews with pay and benefits staff to obtain clarification and further information regarding pay and benefits roles, responsibilities, processes, and procedures;
- analysis of PCO policies, guidelines and other administrative documentation, and comparison to federal government requirements and regulations;
- completion of process mapping of key pay and benefits control processes, and comparison to federal government requirements and regulations;
- validation of process charts prepared by PCO, and supplementary process charts prepared by the audit team;

- identification of key control points or control weaknesses;
- confirmation of risks;
- identification of additional financial information on supplementary pay;
- review of pay and benefits data provided by PWGSC, as well as financial and HR transaction data provided by PCO Human Resources Division for various categories of transactions, including Taken On Strength (TOS); Struck Off Strength (SOS); and Leave Without Pay (LWOP);
- reconciliation of the number of FTEs reported in the PCO Integrated Business and Human Resources Plan 2009-10, the HR system, and the PWGSC Pay Document selected for testing;
- selection of a sample of pay and benefits and overtime transactions using a statistical sampling methodology, supplemented by judgmental sampling where considered appropriate;
- conduct of detailed audit procedures, including the following:
  - tracing entitlements to relevant original documents contained in the employee file for compliance with the control framework;
  - verifying the accuracy of the calculation of amounts paid and compliance with applicable terms and conditions of employment, collective agreements, and other applicable Treasury Board policies and directives; and
  - verifying the adequacy of pay, benefits and overtime transaction authorization by a delegated manager.
- assessment of the extent to which overtime is authorized and paid in accordance with TBS and departmental policies and relevant collective agreements or terms and conditions of employment.

## 1.7 Sampling and Testing Approach

The total population under review included 1,176 employee files, representing a total salary and benefits expenditure of \$87,721,943 for 2009. Of this amount, overtime expenditures totalled \$2,376,394, or 2.7% of total salaries and benefits. The sampling approach involved both a statistical sampling methodology and judgmental sampling.

A statistical sample of 67 transactions was selected randomly using a 90% confidence level and a  $\pm 10\%$  precision level. The transactions were selected either from the pay report dated December 23, 2009, or at the time the employee was hired (TOS); on leave (LWOP); or had departed (SOS). The resulting sample included 34 regular pay transactions; 19 TOS transactions; four SOS transactions; and 10 LWOP transactions. Testing included review of documentation in support of the sample transactions, and where appropriate, assessment of compliance to applicable TB policies and directives (e.g. verification of acting assignments, pay increments, and performance pay).

An additional sample of 10 employee files was selected on a judgmental basis from a population of 422 employee files involving overtime. The overtime transactions selected for review were assessed for compliance with the relevant Treasury Board policies, directives and regulations related to overtime and extra duty pay entitlements (call-back and the stand-by provisions); evidence of management practices and controls, including verbal and/or formal approval of overtime and verification of work done by employees working outside normal working hours; and indication that the overtime work to be performed was essential and that management was satisfied that overtime was the most cost-effective way of achieving the requirement.

## **1.8 Process Overview**

Compensation advisors provide pay and related benefits services to departmental employees, and enter pay transactions into the PWGSC Regional Pay System (RPS). Compensation advisors are responsible for the accuracy, integrity, verification and timeliness of pay transactions.

Employee salary payments, calculated by the RPS, are issued by the Receiver General's Standard Payment System (SPS). Data processed by the SPS are forwarded to the PCO Salary Management System (SMS), a management tool used for forecasting and monitoring actual personnel costs. SMS supplements SPS data with appropriate departmental financial coding and subsequently transfers this data to the PCO financial management system (SAP). Position and employee data are recorded in PCO's Human Resources Management System (HRMS), PeopleSoft.

PWGSC maintains a Payroll System General Ledger (PS-GL) that produces Payroll Control Account Balance, Control Data, and Internal Journal Voucher reports. PCO utilizes these reports in the reconciliation of its Payroll Control Account. Finally, PCO Final Trial Balance is submitted to the Central Financial Management Reporting System, a PWGSC system.

Delivery of pay and benefits services involves the following processes:

- RPS data input for appointments and new hires (taken-on-strength) (TOS);
- Transfer-in from other government departments (OGD);
- Changes to individual pay files required to apply updated information on pay related transactions or new terms of collective agreements;
- RPS data input for overtime;
- Transfer-out to OGDs;
- Departing personnel (struck-off-strength) (SOS);
- Leave without pay (LWOP);
- Payroll run;
- Pay distribution; and

- Management review of payroll expenses.

PCO's Compensation advisors have a direct role in all of these processes, with the exception of the final three (payroll run, pay distribution, and management review of payroll expenses). The Salary Management Team is responsible for verifying RPS pay reports against pay forecasts which they previously enter in the SMS. The Financial Management Advisor group provides financial advisory services to PCO managers who monitor their budgets through monthly financial reports (branches may have a resource ensuring the monitoring on behalf of managers).

## 2.0 Conclusion

**Complex pay and benefits services are delivered in compliance with relevant legislative requirements, policies, directives and collective agreements. Departmental financial systems are well integrated with the PWGSC centralized pay system. However, data integrity in the human resources information system (PeopleSoft) should be improved; certain elements of the organizational framework should be strengthened; and there is a need for better retention of evidence to demonstrate the application of key operational controls and to support individual pay transactions.**

The Compensation function in the federal Public Service is complex and in a state of renewal. Responsibility for the delivery of pay and benefits services to federal employees is shared by TBS, PWGSC and departments. Payroll processes and HRMS information systems are being modernized. At the time of the audit, the government announced plans to consolidate the pay and benefits function in a new centralized payroll centre in Miramichi, New Brunswick. The compensation function will likely face staffing and retention issues during the transition phase, which is expected to be two years. Within PCO, the pay and benefits workload is significant. The department experiences a higher turnover in departmental staff and higher volume of pay activity than would normally be expected for a department of its size.

In spite of these challenges, the PCO Compensation function is being delivered in an effective manner. Pay and benefits services are consistently delivered to PCO employees, and comply with relevant legislative requirements, TB policies, directives, and collective agreements. The organizational structure is appropriate. Employee requests for information are being actioned, although there may be some delays during peak periods of activity.

Certain administrative processes and controls can be strengthened. Although PCO produces two strategic HR plans and an operational Business Plan, operational planning could be improved with the addition of further information on risks and risk mitigation strategies. Performance standards for the delivery of pay and benefits

services exist, but have not been formalized. Compensation staff members have access to policies, directives and procedures related to pay and benefits, and regular meetings are held to share best practices. PCO departmental systems (SMS and SAP Financial System) are well integrated with PWGSC centralized pay systems, but PCO's HRMS PeopleSoft data is not always accurate, complete, or timely, which has implications for the calculation of benefits such as severance pay and pensions. PCO has good practices in place to minimize errors in pay processing, including review of transactions through a peer review system and supervision. However, other important operational practices were found to be lacking, including the retention of process checklists, filing of evidence to support the conduct of key process controls and individual pay transactions, and verification of delegated authorities for overtime transactions.

### 3.0 Findings and Recommendations

The following sections detail the audit findings, and recommendations. All recommendations are directed to the Assistant Deputy Minister, Corporate Services Branch.

#### 3.1 Organizational Framework

**Although PCO prepares two strategic HR planning documents, the organizational framework for the PCO Compensation function requires improvement in the areas of operational planning, risk assessment, and performance measurement.**

Sound management practices involve the preparation of both strategic and operational plans. The planning process should allow for due consideration of financial risks, financial sustainability, governance, resource allocation and performance monitoring.

PCO produces two strategic HR plans. The PCO Strategic Human Resources Plan 2010-2013 describes three HR management priorities (career development, empowerment and innovation, and work environment). The PCO Integrated Business and Human Resources Plan 2010-11 is a high-level government reporting document describing PCO's operations in terms of Program Activity Architecture and program objectives.

PCO's HR operational Business Plan is more informal and could be improved. We would expect the operational plan to incorporate risk and mitigation strategies and goals specific to the PCO Compensation function; a rationalization of FTEs for compensation advisor positions and expenditures; and more detailed performance standards for the delivery of pay and benefits services.

The PCO Compensation function has a budgetary expenditure reference level of 7.0 FTEs and a salary reference level of \$467,270. The actual number of staff was thirteen

(13) employees, with additional salary costs funded internally from the HR Branch budget. According to Pay and Benefits management, performance standards for the delivery of pay and benefits services exist but have not been formalized. Clients have not been asked to assess services against standards, or to provide feedback on their satisfaction with services rendered. Management indicated that it did not wish to create expectations among employees, and that most delays in the delivery of pay and benefits services would be due to delays in transactions between departments, PWGSC and PCO.

Recommendation 1 - It is recommended that the Assistant Deputy Minister, Corporate Services Branch expand the operational HR Business Plan to include risk and mitigation strategies and goals specific to the Compensation function, a rationalization of FTEs for Compensation advisor positions and expenditures, and more detailed performance standards for the delivery of pay and benefits services.

### 3.2 Systems Integration

**PCO departmental financial systems are well integrated with the PWGSC centralized pay system. However, data recorded in the PeopleSoft human resources information system, used to determine benefits such as pension and severance entitlements, is not always accurate, complete or timely.**

Effective financial monitoring controls exist within the payment system. However, information recorded in the HRMS PeopleSoft system is not always accurate, complete or timely. The audit disclosed that in 14 out of 67 transactions tested (21%), automated pay cards maintained in PeopleSoft did not agree with pay reports, i.e. the automated pay cards did not reflect salary changes, current pay rate, or current benefits.

The lack of accurate information in PeopleSoft does not have a major impact on the processing of bi-weekly pay since PCO relies on the PWGSC pay system RPS to process pay transactions. However, failure to properly maintain PeopleSoft employee records could have longer term implications for the accuracy and completeness of employee pay history, used to determine benefits such as pension and severance entitlements.

Interviews with Compensation staff indicated that RPS and PeopleSoft will communicate through an interface in the near future. To meet PWGSC's RPS requirements, PCO must take action to update its PeopleSoft records.

Recommendation 2 - It is recommended that the Assistant Deputy Minister, Corporate Services Branch, identify the number of PeopleSoft files which lack complete or accurate data, and prioritize action to ensure

accurate and timely integration with PWGSC's payroll transaction system (RPS).

### 3.3 Pay Processing

**Pay and benefits services are consistently delivered to PCO employees, and comply with relevant legislative documents, TB policies, directives, and collective agreements. However, some internal procedures lack completeness and consistency in their application, verification of transactions is not always evidenced, and pay files are not always complete.**

#### Communication and Training

Compensation staff members have access to TBS and PWGSC policies, directives and procedures related to pay and benefits. Bi-weekly meetings are held to share best practices among staff members. However, decisions resulting from these meetings are not formally communicated to all staff, resulting in possible misunderstanding of subject matter or inconsistent policy interpretations and file documentation procedures.

Compensation services for Executives (EX) are provided by a compensation advisor with specialized training. The EX pay specialist works only a few hours a week. In the absence of this individual, EX pay services are provided by other compensation advisors who may be less experienced in the handling of EX pay requirements.

#### Processing Controls

The audit noted the existence of good practices to minimize errors in pay processing, including review of transactions through a peer review system, and supervision of less experienced employee trainees. Peer review is an internal control involving the independent verification of pay input by a reviewer (colleague) to ensure prompt identification and correction of any transaction flagged as a possible error, the consistent application of payroll processing requirements, and the accurate completion of pay document input to the PWGSC on-line pay system (RPS).

However, the audit did not find evidence of other important operational practices, such as the handling of errors reported by PWGSC, evidence of action taken to identify and correct erroneous payments or overpayments, or consideration of the impact of incomplete or inaccurate information in HRMS PeopleSoft. Without evidence that key operational processes are consistently performed, PCO cannot demonstrate that it has suitable controls in place to ensure the accuracy of pay transactions.

#### File Documentation

The Virtual Pay System, a component of the RPS, provides checklists for individual



operations to be completed or documents to be obtained. These checklists are automated, but there was no requirement to retain them on file as evidence that transactions were properly completed.

Compensation advisors must confirm the accuracy and completeness of Payroll Registers and other output reports to ensure that payments are consistent with pay transaction data input. This control is required to ensure complete, prompt and accurate payment to employees. However, evidence of this control being carried out was lacking in 28 out of 67 transactions tested (42%).

The audit disclosed that in some cases, forms, letters and documents to support pay transactions were missing from employee files, e.g. documentation to support allowances and deductions; evidence that compensation advisors had advised or notified employees about their benefits; forms related to entitlements or discontinuation of entitlements in LWOP cases; documentation in support of student salaries; "Departure" and Finance "sign-off" forms which are to be used to ensure that departing employees do not owe any money or assets to the Government; and no specific branch sign-off that no monies were owing to the Crown.

### Overtime

Organizational challenges and work expectations make overtime a reality at PCO. For calendar year 2009, PCO overtime expenditures totalled \$2,376,394, or 2.7% of total salaries and benefits. Half of all PCO employees incurred overtime during the year.

The audit included a review of ten overtime payments. The audit disclosed that these payments were calculated in accordance with applicable collective agreements and were supported by detailed records of overtime worked. However, the reasons for overtime were generally not documented (7 out of 10 transactions tested), and Compensation advisors indicated that they do not verify that the managers who authorize overtime transactions have been granted the appropriate delegation of authority (Section 34 of the FAA). It was noted that not all compensation advisors had access to the departmental delegation of authority matrix, which is available online through an automated application icon on their computers. Despite this lack of control, audit tests indicated that the overtime transactions examined had been properly approved by managers with FAA 34 delegated signing authority.

### Efficiency

In 2009, the period chosen for transaction testing, the Compensation unit did not systematically date stamp mail upon receipt. Consequently, it was difficult to measure the time spent from process initiation (e.g. the receipt of a 'letter of offer') to the completion of transaction processing, one indicator of process efficiency.

The audit did identify other areas for improvement affecting efficiency, including the

input and maintenance of data in the PeopleSoft information system, the retention of documentation as evidence that processing controls were appropriately applied, and the filing of documentation in support of individual pay transactions.

The audit also examined the ability of Compensation advisors to efficiently respond to employee requests. As at September 30, 2010, there were 283 outstanding requests for action from employees (items such as incomplete documents, outstanding responses to client questions, and files to be forwarded) which had accumulated during the summer vacation season. As at November 10, 2010 the number of outstanding employee requests had been significantly reduced.

Recommendation 3 - It is recommended that the Assistant Deputy Minister, Corporate Services Branch:

- a. document decisions regarding best practices identified at bi-weekly staff meetings and communicate to all Compensation staff; and
- b. ensure that processing controls are carried out in a consistent manner with appropriate supporting evidence, in particular, verification of FAA 34 delegation of authorities, verification of the payroll register, evidence of peer review, and completion of departure sign-offs.

## 4.0 Management Response and Action Plan

Management accepts the report and its recommendations.

**Audit of Compensation (Pay and Benefits)**  
 The Assistant Deputy Minister, Corporate Services Branch has overall accountability for the Action Plan.

Recommendation	Actions to be Taken	Responsibility	Target Date
<p><b>It is recommended that the Assistant Deputy Minister, Corporate Services Branch:</b></p>			
<p>1. Expand the operational HR Business Plan to include risk and mitigation strategies and goals specific to the Compensation function, a rationalization of FTEs for Compensation advisor positions and expenditures, and more detailed performance standards for the delivery of pay and benefits services.</p>	<p>Compensation and Benefits has been an area of skill shortage for at least the past five years. This has led to many non-productive staffing processes for Compensation and Benefits Advisors (AS-2). As a result, PCO has instituted a trainee program and created a position of Trainer to oversee the learning and development of our trainees.</p> <p>The announcement, made by the Prime Minister in August 2010, that Compensation and Benefits services for the Public Service will be centralized in Miramichi, New Brunswick is an essential step in modernizing and improving services in this important field, but there is little detailed information on the service delivery model (e.g. whether some compensation and benefit expertise will remain in departments and agencies) or the transition plan. As this information becomes available, a departmental plan will be developed to ensure a smooth transition and continuity of service for the department as well as career security for staff. This plan will include rationalization of FTEs and appropriate performance standards.</p>	<p>Executive Director, HRD and Manager, Compensation and Benefits</p>	<p>April 1, 2011</p>

<p><b>Recommendation</b></p> <p><b>It is recommended that the Assistant Deputy Minister, Corporate Services Branch:</b></p>	<p><b>Actions to be Taken</b></p>	<p><b>Responsibility</b></p>	<p><b>Target Date</b></p>
<p>2. Identify the number of PeopleSoft files which lack complete or accurate data, and prioritize action to ensure accurate and timely integration with PWGSC's payroll transaction system (RPS).</p>	<p>Management has been aware of the challenges relating to the lack of completeness and accuracy of data entries into PeopleSoft. A committee within HRD is currently examining how best to identify and correct errors and reduce the error rate and will work in concert with the Central Agency Cluster of PeopleSoft which is also looking at tools to assist the partners, including PCO, to achieve these goals.</p>	<p>Manager, Compensation and Benefits, in consultation with the Information System Analyst.</p>	<p>April 1, 2011</p>
<p>3 a) Document decisions regarding best practices identified at bi-weekly staff meetings, and communicate to all Compensation staff.</p>	<p>Effective immediately, the Manager, Compensation, will follow-up with an e-mail to the employees of the unit to capture decisions on practices to be adopted.</p>	<p>Manager, Compensation and Benefits</p>	<p>December 1, 2010</p>

<p align="center"><b>Recommendation</b></p> <p><b>It is recommended that the Assistant Deputy Minister, Corporate Services Branch:</b></p>	<p align="center"><b>Actions to be Taken</b></p>	<p align="center"><b>Responsibility</b></p>	<p align="center"><b>Target Date</b></p>
<p>3 b) Ensure that processing controls are carried out in a consistent manner with appropriate supporting evidence, in particular, verification of FAA 34 delegation of authorities, verification of the payroll register, evidence of peer review, and completion of departure sign-offs.</p>	<p>Effective immediately, measures will be taken to ensure that all Compensation and Benefits Advisors have the automated financial Delegation of Authorities matrix on their desktop and verify that the manager signing the O/T form has the appropriate financial delegation.</p> <p>The Compensation and Benefits Advisors use a checklist to ensure all steps in the processing of pay actions are completed. However, the checklist was not retained on the file as evidence that all steps had been completed. Effective immediately, this checklist will be retained on file as evidence that steps were systematically followed.</p> <p>Finally, managers and employees will be reminded, via Info Net and a Quick Reference Guide in the Managers' Corner, of the procedures around the approval of overtime, including the appropriate form to be completed.</p>	<p>Executive Director, HRD</p>	<p>December 1, 2010</p> <p>April 1, 2011</p>

## Appendix A - Detailed Audit Criteria

The following five (5) criteria were applied during the Examination Phase to assess the adequacy of the MCF for the delivery of pay and benefits services to PCO staff:

1. The organizational structure (direction, roles and responsibilities, resources and work allocation, and communication) is appropriate and ensures efficient and effective service delivery and financial integrity.

Key related sub-criteria were used to assess the extent to which:

- the mandate, authority, and accountability for the delivery of pay and benefits are well defined and communicated within the department;
- roles and responsibilities are well defined and clearly communicated;
- goals and objectives for the compensation, benefits, and overtime functions are articulated in HR strategic and operational plans;
- a corporate risk and mitigation strategy specific to the Compensation (Pay and Benefits) function is in place; and
- compensation performance expectations (and to some extent staffing and classification performance expectations) to which managers, supervisors and the organization are held accountable are translated into standards, are communicated to PCO management, and performance against those standards is measured.

2. The integration of PCO departmental processes (HRMS, SMS, and Financial System) with TBS and PWGSC centralized pay and benefits systems and associated procedural and financial controls and requirements for the management of compensation and overtime ensures the efficiency and effectiveness of the compensation administration process.

Key related sub-criteria were used to assess the extent to which:

- tests are conducted on financial and HR systems to confirm compliance to TBS policies and performance indicators/standards relating to the handling and recording of pay-related transactions;
- when applicable, audit recommendations/improvement plans have been developed and are implemented as per Management Action Plans;
- adequate controls have been established and implemented for financial and HR pay transactions; and
- pay processes are efficient and effective and comply with the Pay Administration Control Framework established by the Office of the Comptroller General (OCG).

3. Executive and regular pay services are consistently and efficiently delivered to PCO employees and comply with relevant legislative documents, Treasury Board policies and directives, and collective agreements.

Key related sub-criteria were used to assess the extent to which the following transactions are authorized, actioned in a timely manner, and comply with relevant Acts and regulations, TBS and departmental policies and directives, and various collective agreements or terms and conditions of employment:

- Taken-on-Strength (TOS);
- Struck-off-Strength (SOS);
- benefits and allowances;
- pay increments;
- performance pay;
- Leave Without Pay (LWOP);
- acting pay;
- claims for disability; and
- paid overtime (overtime compensated through compensatory time-off was not considered since it does not involve any payment but is instead recorded as compensatory leave in the PeopleSoft HR system).

4. The salary management processes for the authorization and recording of information in PCO's HR and financial management systems are appropriately controlled and comply with PCO financial and HR delegation of signing authorities.

Key related sub-criteria were used to assess the extent to which:

- pay transactions are initiated by managers, by an employee, by PCO Finance, or by TBS;
- peer review and supervisory review are exercised before the submission of transactions for payment;
- managers verify pay expenses for accuracy in order to comply with their account verification responsibilities under section 34 of the *Financial Administration Act* (FAA);
- approvals under section 33 of the FAA provide quality assurance over the adequacy of section 34 FAA verification, and demonstrate appropriate segregation of duties, between pay and financial officers;
- employee compensation records are complete and accurate;
- information obtained through electronic systems is complete, accurate, and reliable.

5. Management receives sufficient, complete, timely, and accurate information on pay and benefits expenditures and administrative matters.

Key related sub-criteria were used to assess the extent to which:

- a process exists to inform senior management of significant issues, including control weaknesses;
- financial and non-financial information is provided to senior management, and the information presented is accurate, relevant, timely, and has been subjected to quality assurance processes; and
- responsibility for reporting is clear, communicated, and applied accordingly.

Criteria applied to Overtime transactions

- A detailed record of overtime worked, including dates and to and from hours has been completed
- The employee has signed and dated the overtime form
- Reason for overtime is documented and pre-authorized (signed and dated) by manager with adequate delegation of authority - include name and date. (Sect. 32)
- The transaction can be traced in the supplement Pay report
- Compensation is based on the correct rate of pay in accordance with the collective agreement
- The employee was not on leave when overtime was done
- No evidence that employee decided for overtime
- There is a clear justification when employee worked in excess of 48 hours in a week

Criteria applied to all transactions (FAA Sections 32, 33, & 34)

- Evidence of verification of FAA Section 34 signing authority = Checklist initialed by Compensation Advisor)
- Evidence of peer review = Checklist initialed by Reviewer
- Evidence of manager final pay verification under FAA Section 34.2
- Manager has the authority to sign overtime
- Sufficient documentation on file.

Criteria applied to assess efficiency

- Efficiency (duration from effective date to completion of pay processing)
- Date - Overtime form is signed by Manager (FAA Section 34.1)
- Date - Overtime form is received in Compensation
- Date transaction completed