

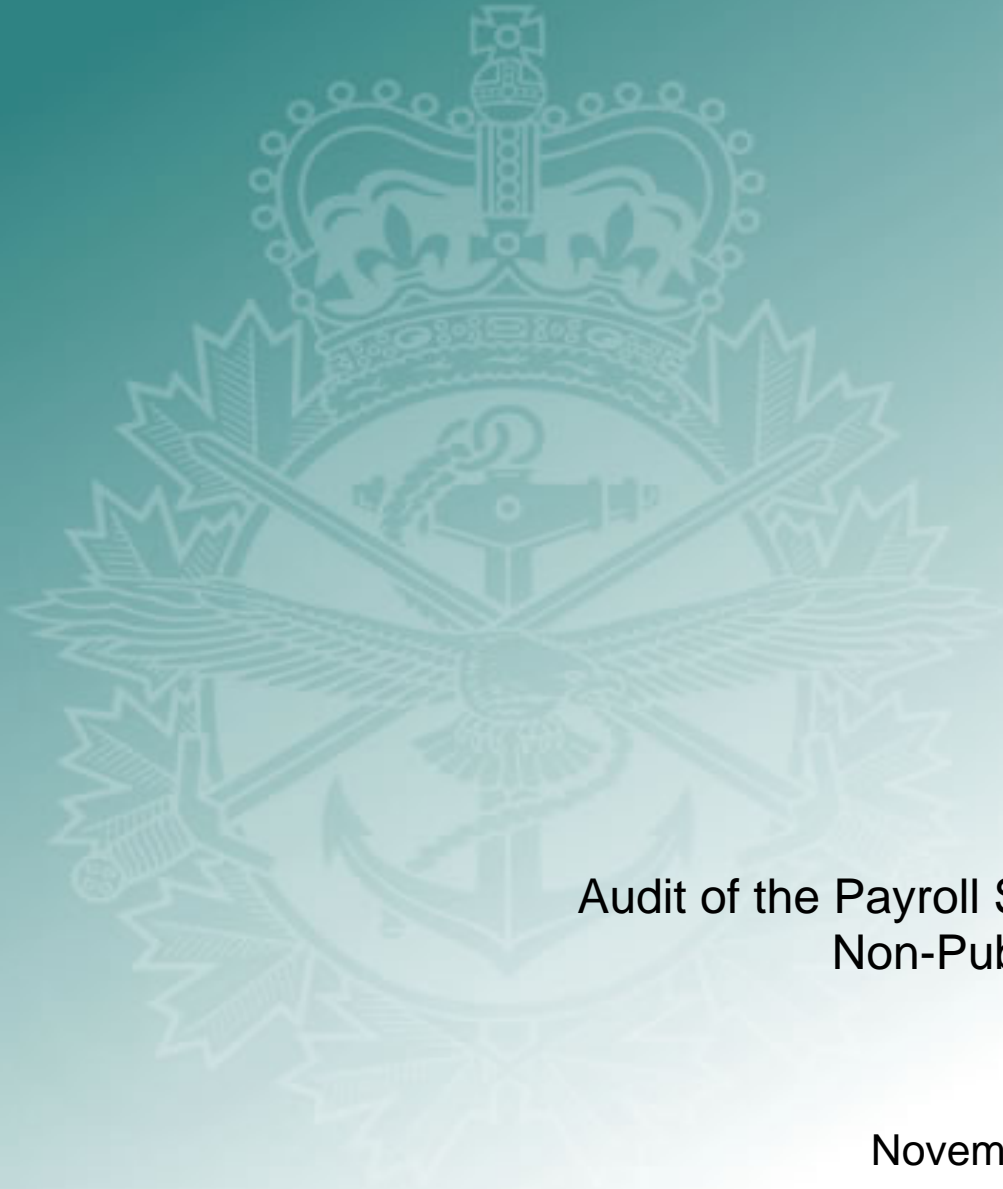


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Chief Review Services Chef - Service d'examen

CRS  CS Ex



Audit of the Payroll System for the Staff of Non-Public Funds

November 2008

7050-8 (CRS)



Canada 

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Acronyms and Abbreviations

ALM	Automated Leave Management
B/W/U	Base/Wing/Unit
CFO	Chief Finance Officer
CIO	Chief Information Officer
CRS	Chief Review Services
DGPFSS	Director General Personnel and Family Support Services
FY	Fiscal Year
HQ	Headquarters
HR	Human Resources
IM/IT	Information Management/Information Technology
IP	Input Personnel
IVR	Input Verification Report
NPF	Non-Public Funds
NPO	National Payroll Office
NPP	Non-Public Property
OPI	Office of Primary Interest
PEN	Payroll Entity Number
PVR	Payroll Verification Report
ROE	Record of Employment
SOP	Standard Operating Procedure
VP	Vice-President



Results in Brief

The Chief Review Services (CRS) Non-Public Property (NPP) Internal Audit and Review group audited the NPP National Payroll System in order to provide assurance to the Chief of the Defence Staff that the Non-Public Funds (NPF) payroll cycle has an effective management control framework. The governance structure, adequacy and utility of internal controls, accuracy of payroll data and processes, and the efficiency of the payroll process were assessed.

Documents were reviewed and testing was conducted, throughout different payroll periods, to verify the integrity of entered data. The test results highlighted numerous data entry errors that remained undetected and uncorrected throughout the remainder of the payroll process due to a lack of control measures.

Observations

The results from interviews, file studies, site visits, and data analysis/testing indicate that:

- The National Payroll System is decentralized and does not have a distinct overall management structure.
- Payroll systems and processes do not ensure data integrity as controls over system access, data input, and production of exception reporting are inadequate or absent.
- There are no manual reviews or quality assurance controls except at the basic data entry level—this control may be subject to conflicts of interest as reviewers may be verifying their own input and/or data.
- Written policies, procedures, instructions and standard operating procedures (SOP), when they exist, are mostly the result of local initiatives.
- Responsibility assignment is ill defined throughout the system.
- The communication protocol amongst the different stakeholders is deficient.

Note: For a more detailed list of CRS recommendations and management response, please refer to [Annex A](#)—Management Action Plan.

Overall Assessment

The management control framework of the National Payroll System needs improvement.

Risk management, a component of good governance, has not been integrated into the payroll system.

Core elements such as clear policies and procedures, the assignment of responsibilities, the application of data entry and integrity controls, and the implementation of quality and assurance controls are missing or only partially in place.

Recommendations should, when applied, improve the accuracy of payroll accounts and reduce the risk of financial loss.



Introduction

Background

This systemic audit of payroll forms part of the fiscal year (FY) 2007/08 NPP Audit Work Plan. The last audit on this subject, in 2000, was conducted at a time of transition from a decentralized to a centralized payroll system. A follow-up review was conducted in 2003. With the advent of the ADDAM software program in 2004, the responsibilities for payroll have reverted to a decentralized structure.

The national payroll process is operated by a cross-section of NPF employees from different units and divisions. There are two main data streams at the base level. One involves changes to tombstone data such as name, address, pay rate, and benefits and is the responsibility of Human Resources (HR). This stream also includes HR changes to what is referred to as auto-paid (fixed salary) employees. The second data stream is used to report the number of hours worked by employees who are not auto-paid; i.e., casual, part-time and select full-time employees. This data stream is the sole responsibility of the line managers. At the end of every pay period, the data from both streams is transferred to the National Payroll Office (NPO) for processing and eventual transmittal to the bank for direct deposit payment.

Objective

The objective of this audit is to provide assurance that the payroll cycle has an effective management control framework. For a detailed list of audit criteria, please refer to [Annex B](#).

Scope

The audit provides a complete study and analysis of the payroll cycle from the initial set-up of new employees to the final pay of terminated employees. Payroll components and reports, their interdependence, their relative value and their effectiveness in relation with best business practices were reviewed.

Methodology

- Review of prior audits (2000 audit and 2003 follow-up audit);
- Preliminary interviews with HR managers, NPO staff, finance managers, and information management/information technology (IM/IT) specialists;
- Review of applicable policies, procedures and SOP;
- Four on-site base visits;
- Telephone survey of 30 input personnel (IP) and line managers;
- Study of payroll systems software;
- Extensive testing of payroll transactions;
- Follow-up interviews based on test results; and
- In-depth analysis of all evidence and findings gathered in this process.



Findings and Recommendations

Payroll System Management Structure

Payroll functions and responsibilities are widely decentralized. There is no distinct, controlled management structure for the payroll process.

The payroll cycle from front line data entry to the delivery of direct deposits to the bank is widely decentralized. It involves a large number of IPs, line managers, and HR staff on 27 Base/Wing/Unit (B/W/U) as well as HR, NPO, and the Finance Division at headquarters (HQ). The process is thus multi-levelled, inter-divisional and with no distinct management structure. There is no senior manager or management team assigned responsibility for the entire payroll process.

Although it is operational, the payroll system is at risk due to an absence of key controls. There is a lack of written directives establishing procedures, lines of communications, distribution of responsibilities, designation of accountability, training programs and control systems. Control and review mechanisms are insufficient, or sometimes absent at all levels.

Quality Control/Assurance

Best practices in payroll systems include quality assurance and monitoring mechanisms. In the National Payroll System, however, there is no quality control or quality assurance mechanism, and overall responsibility for quality has not been assigned. As well, performance measurements and indicators have not been identified.

NPO Management

The organizational structure at the Payroll Directorate, under the Chief Finance Officer (CFO), is truncated above the NPO level as the two higher levels of supervising managers are not co-located at the HQ (see Figure 1). This arrangement leaves the NPO Manager without the benefit of readily available managerial supervision and assistance and requires him or her to operate mostly independently from the Finance Division.

We have noted a risk of conflict of interest within the Finance Division, where family members are employed in positions where payroll data can be manipulated and system controls are developed. Further, at the data entry level, there is an urgent requirement to segregate duties to restrict individuals' access to enter and review data related to their own wage or salary.



Figure 1. The Payroll Directorate Chain of Command. The National Payroll Office Supervisors, based in Ottawa, report to the National Accounting Manager, who is based in Halifax. The Manager reports to the Director Accounting and Payroll Operations, who is based in Valcartier, who in turn reports to the Chief Financial Officer, who is based in Ottawa.

Going Forward

In view of the above, a cross-divisional working group, with members from the CFO, HR and Chief Information Officer (CIO) divisions, herein referred to as a Senior Management Payroll Team, should be formed to address the noted deficiencies in the payroll system. This cross-divisional team would be responsible for ensuring the formation of the governance structure that is currently missing; defining lines of communications, responsibilities, and points of contact at a higher level; and establishing a control framework.

Recommendations

Form a Senior Management Payroll Team. **(OPI: DGPFS)**

Direct the Senior Management Payroll Team, or other appropriate senior management group, to:

- Develop a defined management structure for the payroll process.
- Review all aspects of payroll operations.
- Implement a quality control/assurance mechanism. **(OPI: DGPFS)**

Auditor's Note: The concept of a Senior Management Payroll Team was discussed and endorsed by the VP HR and CFO during the audit debrief. The observations and success of the recommendations in the remainder of this report tie in closely with the formation of this team.



Automated Internal Controls

Automated payroll system controls lack sufficient rigor and are not reliable enough to be used by senior management to safeguard assets and the privacy of employee information.

There is no defined internal control framework for the payroll process. Existing internal controls consist of automated software and manual review controls that have not been cohesively arranged to ensure assets are safeguarded in the most efficient manner.

Absent and ineffective controls were noted throughout the payroll process, including, but not limited to, an absence of data entry and access controls, quality controls (discussed under the heading “Payroll System Management Structure”), payroll review, reports, and payroll training.

Automated controls reside within the software programs used in the payroll process. The main software payroll programs used in the payroll process are Cyborg and ADDAM. Cyborg is a professionally developed licensed program that includes inherent internal controls.

Data Entry

The payroll process operates on the assumption that basic data entry at the B/W/U level is correct and requires no further review before or after delivery. The line managers have the sole responsibility to review their own entries, sometimes even their own work-hours and do not benefit from a higher level of review at the B/W/U or HQ level. Conversely, the payroll is simply processed with deductions when it reaches the NPO level and is not submitted to other controls. Neither are there any higher-level systems controls.

Figure 2 shows a simplified flowchart of the payroll process. The only current control, line manager review of data entries, is highlighted in red. For a more detailed explanation of the flowchart and a comparison of the current and recommended payroll process, please refer to [Annex C](#).

Audit tests have detected a high level of input errors at the base

level. Data input is seldom or never reviewed and errors are rarely corrected before or after the payments have been issued. The IP and line managers, who enter worked hours data involving collective bargaining agreement parameters, employee contracts, codified tools, alternate rates, overtime, statutory holiday pay, leave, etc., do not necessarily possess the skills and the knowledge to perform their payroll-related responsibilities with the required precision and accuracy. Line managers and IP receive no formal training in these matters.

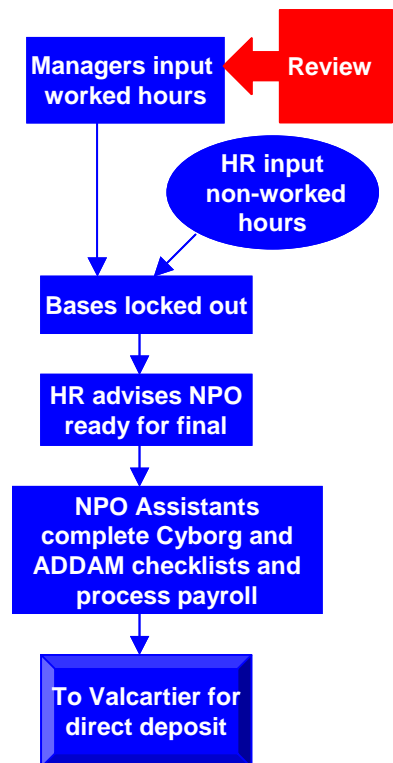


Figure 2. Flowchart of the Payroll Process. Managers review staff hours and input the hours worked into the system. Once complete the system locks them out so the payroll can be processed. The data is transferred from the input system (ADDAM) to the payroll system (Cyborg) and is processed. The processed payroll information is forwarded Valcartier for direct deposit processing.

ADDAM

ADDAM was created in-house to streamline the payroll process by allowing managers to directly enter worked hours for hourly employees. ADDAM is a main focus of the audit, as 74 percent of employees require worked time entries. The remaining 26 percent of employees are full-time auto-paid employees.

ADDAM does not have the standard internal controls expected in a payroll software program.

Responsibility for the review of data entries was transferred from HR to line managers with the introduction of ADDAM in 2004. Compensating controls to replace the removal of the independent HR review and offset the conflict of interest of the line managers were not embedded in the ADDAM program. Data is entered into the payroll system without automated checks for integrity and accuracy, and with no subsequent independent manual review.

[Annex D](#) includes a detailed list of ADDAM control deficiencies, observations, and recommendations. Currently, the upgrades planned for ADDAM do not include internal controls improvements.

The lack of system controls over data entry in ADDAM has also negatively affected the efficiency of the entire payroll process. Employees, managers, HR, and NPO all spend time investigating and correcting errors that could have been prevented at the source. HR performs unofficial reviews due to legitimate concerns with data entries and acts as an unofficial liaison and complaints department on the behalf of employees.

Automated Tracking and Review

NPO and HR have unrestricted access to enter payroll changes in Cyborg, including their own accounts. NPO transactions are not reviewed and HR review procedures are base specific.

The lack of an automated report to track, monitor, and review payroll transactions entered by a specific individual or within a specific area is a serious limitation of the system. Statistical information is not readily available to identify the frequency of access, the changes made or the magnitude of the amounts should they be beyond some reasonable threshold.

When there is cause to investigate, suspect transactions must be manually identified from within a large data set and reviewed manually. In Cyborg, the transactions can be linked to the responsible individual but this linkage is not possible in ADDAM.

Software Incompatibility

The software programs related to the payroll function are not fully integrated and do not share a single database. Consequently, inefficient duplicate data entries are required that result in data errors and inconsistencies.



Incompatibility was noted in the following:

- ADDAM information is uploaded into Cyborg but subsequent Cyborg adjustments are not reflected in ADDAM historical reports.
- Employee status information in Cyborg, including terminations, is not transferred to ADDAM.
- Proprietary pension and benefits software is used to manage pension and benefits information. Changes to employee records and status are not transferred to Cyborg or vice versa.
- The internally developed Automated Leave Management (ALM) software program was created to track leave entitlements. There is no link between this program and Cyborg. Management notes that a leave upgrade is being contemplated for ADDAM. However, no timeframe was available at the time of the audit.

Recommendations

ADDAM. Implement the controls recommended in [Annex D](#), or implement another time entry system with sufficient inherent controls. The recommendations at [Annex D](#) are summarized as follows:

- Remove access to ADDAM immediately upon termination and review the necessity of establishing new IP accounts.
- Provide managers with the ability to lock time entries.
- Develop and maintain a library of transaction details.
- Develop reports that assist management review of time entries.
- Limit the number of regular hours that can be entered daily and per pay period for each employee. Develop automated testing of the reasonableness of overtime to regular hour ratios.
- Limit alternate rate choices to ensure compliance with collective bargaining agreements and clearly identify alternate rates used in payroll reports.
- Require a minimum number of hours per daily entry to comply with HR Policy and collective bargaining agreement requirements.
- Allow only worked holiday hours (premium pay function) to be entered on statutory holidays. Limit the worked holiday function to statutory holidays only.
- Limit the daily number of hours entered per employee to a maximum of 24.
- Prevent the possibility of double entries. More specifically, each payment type should only be able to be entered once per employee, per payroll entity number (PEN), each day.
- Monitor casual and part-time worked hours on an ongoing basis.
- Include collective bargaining agreement and HR Policy information in ADDAM.

The ADDAM access list should be updated immediately to remove all terminated employees and unnecessary manager and IP accounts.

The planned upgrade for a leave component should be implemented shortly after the control upgrades. A component that calculates and enters statutory hours would also be beneficial in improving efficiency. **(OPI: CFO)**



Automated Tracking and Review. Develop an electronic library of all transaction information with reporting capability including statistical analysis.

A periodic review system be developed at the senior HR and finance level to review base and NPO-level transactions. The review should include an analysis of the number of transactions occurring, transactions that are a conflict of interest (e.g., changing the account of a co-worker, spouse, or one's own account), and accounts that have a higher than normal amount of manual changes. **(OPI: CFO)**

Software Compatibility. Upgrades and changes to software should consider system compatibility, efficiency, and the use of single database records. **(OPI: CFO/CIO)**



Manual Controls

The manual controls included in the payroll process do not compensate for the lack of automated controls.

Manual controls are often used to compensate for weaknesses in automated controls. Manual controls may take the form of personnel reviewing output reports such as employee pay stubs, independent reviews of time sheets, input verification reports (IVR), and payroll verification reports (PVR).

The only official manual review control identified was when line managers review IVRs and PVRs. It was noted that managers do not receive direction concerning their review responsibilities, and review practices in the field vary widely. It was noted that some managers rarely or never use the IVR and PVR output. The IVR and PVR are not designed for management review purposes, as detailed in [Annex D](#).

Senior Management should not rely on employee review of their pay stubs as a key manual control over payroll accuracy. Only 42 percent of employees have ever accessed even a single online pay stub. HR managers have indicated that employees in the field often do not have the necessary computer skills or access to a computer, or run into difficulties setting up access to the pay stub website and give up.

Reviewing timesheets may be considered an effective control. Due to the rather indiscriminate manner in which personnel have access to data (their own included), this control is deficient or non-existent in many places. Reviews by line managers lack independence as they are reviewing their own data input. Present is the obvious potential for conflict of interest when they have entered their own worked hours. With respect to the actual timesheets used, there is no consistency or standardization in the use, retention, and review of these accountable documents. An effective audit trail is therefore not present.

Balance Sheet Control Accounts

Control account monitoring and reconciling are often effective methods of protecting assets and identifying errors. When detected, even minor balancing errors can indicate larger underlying problems that ought to drive investigation.

The current process does not rely on a master list of control accounts. In fact, there is no list of control accounts, nor has the responsibility for reconciling, correcting errors, and ensuring payments to third parties been clearly assigned.

The material tax and other government deduction accounts (Employment Insurance, Canada Pension Plan, etc.) are reconciled by NPO. Responsibility for the reconciliation of less significant accounts is not clear though some accounts such as accumulated vacation pay and payroll advances are considered secondary duties of NPO and are reviewed as time permits.

The Pension and Benefits accounts are the responsibility of HR. The employee benefits deductions are not reconciled against the benefit provider's monthly bill. As a result, the control account was out of balance \$51,359 by August of FY 2007/08.



The Senior Manager Compensation & Benefits and field HR staff cited communications difficulties and systemic errors in benefits coverage and deductions. Errors in benefits deductions could lead to costly settlements with employees and/or a financial burden on employees for retroactive amounts owed.

The lack of payroll review is commonly known and increases the risk of errors in the payroll system. Further, the risk of errors in general is compounded when there is unrestricted access, a high volume of transactions, no automated internal control system, and limited manual review controls.

Recommendations

Manual Review

- Develop reports designed for review purposes.
- Institute a manual review structure that separates data entry from review responsibilities.
- Determine whether employee review of pay stubs can be improved and if there are technological barriers to access. **(OPI: CFO/VP HR)**

Balance Sheet Control Accounts. A master list of payroll accounts should be prepared that assigns responsibility, reconciliation processes, and approval procedures.

The benefits control account should be balanced immediately and be fully reconciled going forward. **(OPI: CFO)**



Policies and Procedures

Policies, procedures, and SOPs are lacking at all levels of payroll operations.

The national payroll function involves a large number of individuals with intervention privileges into Cyborg and ADDAM, including 779 managers with IP privileges, HR staff at 27 bases, and five NPO staff. In these circumstances, there ought to be detailed and widely applied policies, procedures and SOPs at different levels of the structure. This is not the case. The lack of certain policies and SOPs is directly related to other observations in this report concerning expectations of employees and confusion with roles and responsibilities. Reference documentation would relieve informational needs of individuals and allow them to raise concerns about gaps in controls and assigned responsibilities.

There are written payroll administration procedures and SOPs at B/W/U, but they are local products that reflect the various levels of attention brought upon the payroll function. No formal national document, booklet or instruction is provided to assist the IP and line managers in their data input responsibility. At one base, data input instructions are contained in a hand-written notebook. Elsewhere, the instructions are missing entirely.

Front-line managers are not afforded requisite resources such as SOPs and training.

The same front-line managers and IP with the responsibility to enter worked hours and other data receive no formal training. No structured national training plan or related instruction manual has been produced. Whatever information or training they receive upon assuming their duties is done informally.

The aide-mémoire used at the NPO is a collection of memos, notes and printed materials loosely gathered over the years. While it is functional for the current experienced manager, it would be insufficient for temporary or replacement staff and Senior Management review. In addition, detailed procedures and plans are not included for every major process. For example, there was no defined written plan for the issuance of the 2007 T4 forms.

Policies for processes involving or affecting multiple departments have not been jointly developed. The overall responsibility for a corporate function may not be defined. For instance, there is no specific policy regarding the preparation and distribution of Records of Employment (ROE) to former employees despite ongoing concerns and misunderstandings of ROE legislated requirements. Similarly, the performance standards of the 1-800 toll-free line managed by NPO including response times, coverage, and bilingual requirements have not been defined.

The payroll section (Chapter 20) of the A-FN-105 policy is out of date. It does not include the role of managers in the payroll process or the use of the ADDAM application.



Recommendations

Update Chapter 20 of the A-FN-105. **(OPI: CFO)**

Initiate and oversee the production and implementation of a formal payroll operations training program for all IP and managers. **(OPI: CFO/VP HR)**

Develop policies for processes that affect multiple departments. Prepare instructional documentation and standards that can be distributed as necessary.
(OPI: Director Accounting and Payroll Operations)

Oversee the production of a formal instruction booklet directing all aspects of NPO functions and operations. **(OPI: Director Accounting and Payroll Operations)**

Synthesize current HR payroll SOPs used in the field and prepare a policies and procedures manual for the HR role in the payroll process. **(OPI: HR Regional Managers)**



Communications

The communications protocol among the elements responsible for payroll operations is not defined, clear, or seamless.

The payroll management structure and intra-divisional lines of communication are not clear and do not allow for effective sharing of information and coordination of activities. This issue is closely linked with the lack of procedural directives assigning clear sets of responsibilities throughout the payroll cycle. A Senior Management Payroll Team would assist in the establishment of defined lines of communication.

Communication Breakdown Example – Canada Day

A misunderstanding of the legislated requirements for Canada Day statutory pay in 2007 required extensive corrections and is a good case study of the issues within the communications structure. In 2007, Canada Day occurred on a Sunday, but the legislated holiday (paying time and a half) was deemed Monday. This information was not clearly communicated to IP managers. The result was some employees getting holiday pay for working Sunday, some paid holiday pay for both Sunday and Monday, and some paid holiday pay for the Monday only (the correct method).

NPO received the instructions to correct the affected employees' pay directly from HR. NPO failed to advise its senior managers of the problem. A list of corrections was not created or provided to the base HR managers and line managers for information purposes or to NPO's senior finance managers for approval. Communications protocols and coordination were unclear throughout the process.

The problem was exacerbated by the ineffective payroll reports currently available to NPO and the lack of a monitoring and review system. As a result, a base entered the same corrections as NPO and 17 employees were overpaid. In addition, audit testing identified errors related to Canada Day payments, resulting in corrective action being taken in October 2007, three months after the original correcting entries.

Sharing Information

Policy and transaction information is not shared directly among the key participants of the payroll process, affecting workloads and efficiency.

Line managers can request and obtain wage cheques directly through NPO. In such circumstances, HR often remains unaware of the transactions, and recoveries of financial advances are made more difficult.

Terminated employees have expressed dissatisfaction with the timing of the issuance of their ROEs. HR departments bear the brunt of this dissatisfaction and it has a direct affect on their efficiency. Though the wait period for issuance of an ROE can be lengthy, it is within industry standards, as confirmed by Human Resources and Social Development Canada. A policy and instruction manual available to all employees that details time lines and how to complete and file



government claims would reduce employee frustrations and HR involvement. The information would also improve the incorrect perception concerning the administrative integrity of the Agency.

The service levels and response times of the NPO-managed 1-800 toll-free information line has also been criticized by employees and base HR staff. The information line is underutilized according to NPO. Employees appear to prefer in person contact with HR staff. Widely published information on the purpose and customer service standards of the 1-800 line would ensure expectations are reasonable and provide an ability to assess the level of service provided.

Circular References

Circular references are created on a regular basis as employee's directly approach or are sent to HR by their managers for assistance, are deferred to NPO, and are often referred back to the employee's line manager. This practice is inefficient and responsibility is unclear to employees and line managers. A communications protocol that the employee can refer to in set situations would be beneficial.

Clearly, too many elements within the payroll system are functioning in isolation. Cross-divisional/cross-functional communication and information sharing of payroll policies, procedures, and processes should be a priority of senior management.

Recommendation

- A communications protocol be developed in conjunction with the defined management structure and include chain of command requirements and responsibilities.
- Wide distribution of policies and procedural information that affects the efficiency of the entire payroll process. **(OPI: CFO/VP HR)**



Annex A—Management Action Plan

Payroll System Management Structure

CRS Recommendation

1. Form a Senior Management Payroll Team.

Management Action

A Senior Management Payroll Team has been formed and has met on the 10th of July in order to determine the orientation that DGPFS will take with regards to payroll. The members of this committee are CFO, VP HR, CIO, DHRP, D Acct and D Fin. This committee will meet monthly at first to oversee the progression of the action items. In addition, the committee has also agreed to form a sub-committee that will review and elaborate current processes to first establish temporary measures, as well as provide a list of requirements for the potential selection of new software.

OPI: DGPFS

Target Completion Date: 10 July 2008

CRS Recommendation

- 2.

- Develop a defined management structure for the payroll process.

Management Action

The committee has agreed that payroll is an HR function. The sub-committee will oversee several aspects of more detailed work to be completed and will review the management structure.

OPI: DGPFS

Target Completion Date: July 2009

CRS Recommendation

- Review all aspects of payroll operations.

Management Action

The committee has agreed to replace the current version of Cyborg as well as ADDAM. It is agreed that a review of all payroll processes is needed in order to construct our requirements to replace the existing systems.

OPI: DGPFS

Target Completion Date: October 2009

CRS Recommendation

- Implement a quality control/assurance mechanism.

Management Action

Temporary manual measures will be established to ensure that quality controls are in place. The committee will assign measures for implementation based on the sub-committee's recommendations.

OPI: DGPFS

Target Completion Date: December 2008



Automated Internal Controls

CRS Recommendation

3. **ADDAM.** Implement the controls recommended in [Annex D](#), or implement another time entry system with sufficient inherent controls. The recommendations at [Annex D](#) are summarized as follows:

Management Action

The committee has determined that the current Cyborg version and ADDAM need to be replaced. A joint venture will be undertaken by HR/CFO/CIO to launch a search for software to answer all the DGPFSS needs for the NPF work-force. It is estimated that the process will take 3 years to be completed.

OPI: CFO/CIO

Target Completion Date: TBD

CRS Recommendation

- Remove access to ADDAM immediately upon termination and review the necessity of establishing new IP accounts.

Management Action

The committee agrees with this recommendation and will review current processes. A review of the current database has revealed that users can be classified into two categories: NPF employees and Non-NPF. Upon termination of NPF employees, ADDAM access is removed by NPO. For the Non- NPF employees, such as military and public servant employees, a new process will be put in place so that on request of new user, old ones will be removed. Finally, a review of all current users will be conducted and those not having done any input will be removed from the system.

OPI: CFO/CIO

Target Completion Date: November 2008

CRS Recommendation

- Provide managers with the ability to lock time entries.

Management Action

The committee has agreed to activate this function. The impact on the payroll timeline is being assessed. This feature will also be part of our requirements for the new system.

OPI: CFO/CIO

Target Completion Date: October 2008

CRS Recommendation

- Develop and maintain a library of transaction details.

Management Action

As a temporary fix, this feature will be added on to the current ADDAM.

OPI: CFO/CIO

Target Completion Date: October 2008

CRS Recommendation

- Develop reports that assist management review of time entries.

Management Action

Several reports are already available. The committee has directed that a review of existing reports be conducted to select one that can be used for as an exception report. It was also agreed that the monthly review will be assigned to a section, which will notify Bases for correction.

OPI: CFO/CIO

Target Completion Date: October 2008



ANNEX A

CRS Recommendation

- Limit the number of regular hours that can be entered daily and per pay period for each employee. Develop automated testing of the reasonableness of overtime to regular hour ratios.

Management Action

The committee agrees with this recommendation. This feature will be included in our requirements for the new system. At this time, due to the amount of work required to program this rule, it will not be added to ADDAM. A manual process will be investigated.

OPI: CFO/CIO

Target Completion Date: TBD

CRS Recommendation

- Limit alternate rate choices to ensure compliance with collective bargaining agreements and clearly identify alternate rates used in payroll reports.

Management Action

The committee agrees with this recommendation. This feature will be included in our requirements for the new system. At this time, due to the amount of work required to program this rule, it will not be added to ADDAM.

OPI: CFO/CIO

Target Completion Date: TBD

CRS Recommendation

- Require a minimum number of hours per daily entry to comply with HR Policy and collective bargaining agreement requirements.

Management Action

The committee agrees with this recommendation. This feature will be included in our requirements for the new system. At this time, due to the amount of work required to program this rule, it will not be added to ADDAM.

OPI: CFO/CIO

Target Completion Date: TBD

CRS Recommendation

- Allow only worked holiday hours (premium pay function) to be entered on statutory holidays. Limit the worked holiday function to statutory holidays only.

Management Action

The committee directed that a manual review be conducted by NPO as an interim measure. This first review was conducted for the 1st of July holiday.

OPI: CFO/CIO

Target Completion Date: July 2008

CRS Recommendation

- Limit the daily number of hours entered per employee to a maximum of 24.

Management Action

ADDAM is already configured to a maximum of 24 hours per day. NPO will review report following the pay to ensure accuracy.

OPI: CFO/CIO

Target Completion Date: Completed



CRS Recommendation

- Prevent the possibility of double entries. More specifically, each payment type should only be able to be entered once per employee, per PEN, each day.

Management Action

ADDAM is already configured to a limit the possibility of double entries. NPO will review report following the pay to ensure accuracy.

OPI: CFO/CIO

Target Completion Date: Completed

CRS Recommendation

- Monitor casual and part-time worked hours on an ongoing basis.

Management Action

The committee agrees with this recommendation. The sub-committee will review the process in order to establish role, responsibilities and action required by CFO/VP HR staff.

OPI: CFO/CIO

Target Completion Date: April 2009

CRS Recommendation

- Include collective bargaining agreement and HR Policy information in ADDAM.

Management Action

The committee agrees with this recommendation. This feature will be included in our requirement list for new software.

OPI: CFO/CIO

Target Completion Date: TBD

CRS Recommendation

The ADDAM access list should be updated immediately to remove all terminated employees and unnecessary manager and IP accounts.

Management Action

Please see management response above on this item.

OPI: CFO/CIO

Target Completion Date: November 2008

CRS Recommendation

The planned upgrade for a leave component should be implemented shortly after the control upgrades. A component that calculates and enters statutory hours would also be beneficial in improving efficiency.

Management Action

The committee agrees with this recommendation. This feature will be included in our requirement list for the new software. As we will be looking to replace the existing software, this feature will not be added to the current ADDAM version.

OPI: CFO/CIO

Target Completion Date: TBD



CRS Recommendation

4. **Automated Tracking and Review.** Develop an electronic library of all transaction information with reporting capability including statistical analysis.

Management Action

The Cyborg version has a tracking capability. A report called “Is Was” is available which shows all the actions being done within Cyborg which contains tombstone data.

OPI: CFO/VP HR

Target Completion Date: Completed

CRS Recommendation

A periodic review system be developed at the senior HR and finance level to review base and NPO-level transactions. The review should include an analysis of the number of transactions occurring, transactions that are a conflict of interest (e.g., changing the account of a co-worker, spouse, or one’s own account), and accounts that have a higher than normal amount of manual changes.

Management Action

The committee agrees that a review of work performed by staff is required to ensure that sensitive personal information is not altered by the employee. As well, a segregation of responsibilities will be designed not only for NPO staff, but for all HR staff having access to Cyborg. The sub-committee will develop a review process which will assign this responsibility to specific managers not having access to tombstone data.

OPI: CFO/VP HR

Target Completion Date: April 2009

CRS Recommendation

5. **Software Compatibility.** Upgrades and changes to software should consider system compatibility, efficiency, and the use of single database records.

Management Action

The CIO division will be implementing formal methodologies to manage change/release of software and track defects during development and testing. The evaluation of such tools has already begun.

OPI: CFO/CIO

Target Completion Date: Ongoing



Manual Controls

CRS Recommendation

6. Manual Review

- Develop reports designed for review purposes.
- Institute a manual review structure that separates data entry from review responsibilities.

Management Action

The current ADDAM concept design puts the onus back on the line manager. Although the current IVR report may not have all information, it contains sufficient information for managers to review inputs in ADDAM, which allow them to make changes, review again before data is merged back into Cyborg. Once the final pay is done, the PVR is made available, which managers must review. Any changes then can be made the next pay period. Based on the audit observation, a review of the current IVR and PVR will be conducted to establish the information that should be added on to the actual reports, making them more meaningful.

It is the committee's view that it is essential to make managers accountable for the management of their workforce. It is also the committee's view that once the lock in process is operational, managers will have a better control before data is merged back into Cyborg.

OPI: CFO/VP HR

Target Completion Date: December 2008

CRS Recommendation

- Determine whether employee review of pay stubs can be improved and if there are technological barriers to access.

Management Action

Pay stubs are currently available via web through ADDAM. Significant efforts have been made to facilitate the access of pay stub if an employee does not have access to such technology. It was directed that the line manager will accommodate and provide access to ADDAM. In addition, accounting and HR offices will print stub on request and until access is available.

OPI: CFO/VP HR

Target Completion Date: Completed

CRS Recommendation

7. **Balance Sheet Control Accounts.** A master list of payroll accounts should be prepared that assigns responsibility, reconciliation processes, and approval procedures.

The benefits control account should be balanced immediately and be fully reconciled going forward.

Management Action

The committee has directed that this recommendation take precedence over other processes. A full process review will be conducted to ensure that all accounts are viewed and reconciled monthly. The sub-committee will also put forward the recommendation for assigning specific accounts to a section.

OPI: CFO/VP HR

Target Completion Date: March 2009



Policies and Procedures

CRS Recommendation

8. Update Chapter 20 of the A-FN-105.

Management Action

This chapter will be added to the review list.

OPI: CFO

Target Completion Date: March 2009

CRS Recommendation

9. Initiate and oversee the production and implementation of a formal payroll operations training program for all IP and managers.

Management Action

NPO will proceed with formal online ADDAM training with manager and input people. The first on line training is scheduled for the week of 8 September 2008. Then, the intent is to run a training session monthly using a web type of training software.

OPI: CFO/VP HR

Target Completion Date: October 2008

CRS Recommendation

10. Develop policies for processes that affect multiple departments. Prepare instructional documentation and standards that can be distributed as necessary.

Management Action

The committee has agreed to hire a technical writer to construct SOPs which will explain the process in detail from Base to HQ level.

OPI: CFO/VP HR

Target Completion Date: Fall 2008 to hire, October 2009 for completion

CRS Recommendation

11. Oversee the production of a formal instruction booklet directing all aspects of NPO functions and operations.

Management Action

The committee has agreed to hire a technical writer to construct SOPs which will explain the process in detail from Base to HQ level.

OPI: CFO/VP HR

Target Completion Date: Fall 2008 to hire, October 2009 for completion



ANNEX A

CRS Recommendation

12. Synthesize current HR payroll SOPs used in the field and prepare a policies and procedures manual for the HR role in the payroll process.

Management Action

The committee has agreed to hire a technical writer to construct SOPs which will explain the process in detail from Base to HQ level.

OPI: CFO/VP HR

Target Completion Date: Fall 2008 to hire, October 2009 for completion

Communications**CRS Recommendation**

13. A communications protocol be developed in conjunction with the defined management structure and include chain of command requirements and responsibilities.

Management Action

Once processes are well defined, the sub-committee will assign areas of responsibilities to specific sections.

Jointly, VP HR and CFO agreed to review current situation and also agreed to establish a more efficient management and governance structure.

OPI: CFO/VP HR

Target Completion Date: April 2009

CRS Recommendation

14. Wide distribution of policies and procedural information that affects the efficiency of the entire payroll process.

Management Action

The committee has agreed to hire a technical writer to construct SOPs which will explain the process in detail from Base to HQ level.

OPI: CFO/VP HR

Target Completion Date: Fall 2008 to hire, October 2009 for completion



Annex B—Audit Criteria

Objective

1. Ensure proper governance structure is in place.

Criteria

- Governance structure is established.
 - Oversight and review responsibilities have been assigned and are working effectively.
 - A quality assurance system is used.
 - Adherence to policies (A-FN-105).
-

Objective

2. Ensure that internal controls are in place.

Criteria

- Control framework is used to ensure there are no control gaps.
 - Systems controls are designed to reduce need for manual controls.
 - Manual control responsibilities are clear, assigned, and are free of conflict of interest concerns.
 - SOPs are developed for all areas.
 - Training and communications are sufficient.
-

Objective

3. Assess the accuracy of payroll data and processes.

Criteria

- Final payroll data is compliant with:
 - HR Policy requirements,
 - Collective Bargaining Agreements, and
 - Applicable Legislation.
 - Systems controls limit data entry and processing errors.
 - Manual intervention and corrections are minimized.
 - Monitoring and review systems catch and prevent errors.
-

Objective

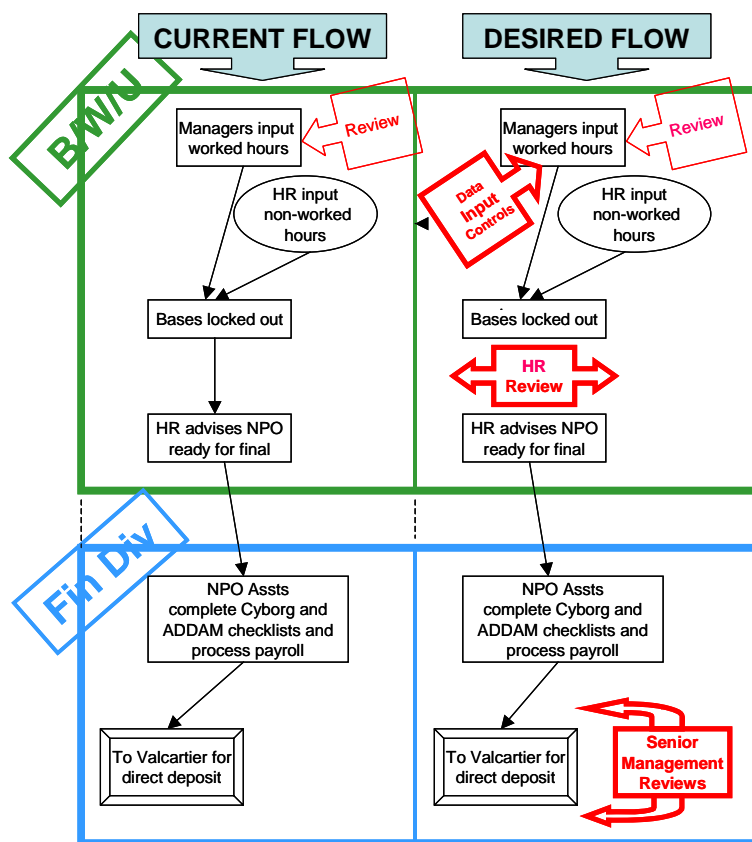
4. Assess the efficiency of the payroll process.

Criteria

- Processes move seamlessly through all involved departments (PEN, HR, NPO, and Finance).
 - Duplication of efforts is minimized.
 - Communications channels are clear and operate effectively.
 - Where appropriate, automated systems are used versus manual systems.
-



Annex C—Simplified National Payroll Cycle Flowchart



Flowchart of the Payroll Process. The current cycle is contrasted with a recommended process in which additional input controls and reviews are included. In the recommended process, input controls are incorporated into the ADDAM system, and the HR office review the hours worked input prior to processing. During the processing of the direct deposits, Senior Management should review the payroll output.

Summary of Controls (as marked in red boxes)

Line Manager Review. Currently the only official review of payroll is by line managers as worked hours are entered in ADDAM and after the payroll has been processed. This is an important control considering their responsibility for the PEN and familiarity with hours worked. However, there are concerns with conflicts of interest and varying capabilities of managers.

Data Entry Controls. There are currently minimal controls over data entry, especially in ADDAM.

Base HR Review. The need for this control is directly linked to the effectiveness of the proposed data entry controls. Ideally, HR would only be required to review exception reports, statistical information, and monitoring reports included within the data entry controls. It would add a level of review over line managers.

Senior Management Reviews. HR and NPO entries in Cyborg are currently not reviewed or monitored. Information is required concerning the volume and types of changes entered by individuals in order to monitor conflict of interest situations and identify errors or inappropriate entries.



Annex D—ADDAM Internal Control Recommendations

Summary

ADDAM requires control upgrades to reduce errors and potential abuses. The removal of manual HR time entry review was not offset with compensating controls. Errors associated with control weaknesses were observed throughout the audit. The shift in responsibility for payroll review to line managers has not been successful.

Overall Recommendation

In the chart below there are five control recommendations of note: numbers 6, 7, 8, 10 and 15. These recommendations recognize that ADDAM must retain flexibility to meet the varying needs of each location across the county. An ability to override these controls can be included if necessary, but an exception report should be automatically issued. The exception report should be sent to the base HR Manager each week or pay period and be available to Senior Management. HR should have the authority to reverse any transaction where the control was overridden. When line managers override a control they should be warned that an exception report has been filed and will be reviewed.

Category	Recommended Control	Additional Information/Audit Observations
ADDAM Access	<ol style="list-style-type: none"> 1. Remove access to ADDAM immediately upon termination. 2. A process to review the necessity of establishing IP access accounts. 	<ul style="list-style-type: none"> • There were 8,590 active employees listed in ADDAM and 779 individuals with manager or IP access rights at the time of the review. There are terminated employees with full access rights. • ADDAM can be accessed remotely. Terminated employees can enter hours and access private information. In addition, current employees may have access to ADDAM through knowledge of terminated employee’s passwords. • IP accounts have also been established for departments that have never entered hours in ADDAM.
Time Entry Lockout	<ol style="list-style-type: none"> 3. Provide managers with the ability to lock time entries. 	<ul style="list-style-type: none"> • Current data is used during the ADDAM upload to NPO. Time review methods used by managers include only reviewing entries as they are entered or reviewing IVRs provided by their IP. Managers often do not review the PVRs after the payroll has been processed. • IPs can enter subsequent un-reviewed entries before the pay period closes. Additionally, there are open accounts for terminated employees with time entry rights.



ANNEX D

Category	Recommended Control	Additional Information/Audit Observations
Transaction Trails	4. A library of transaction details be developed and maintained.	<ul style="list-style-type: none"> • When errors or abuses in data entry occur, it cannot necessarily be tied back to a specific individual. • History of specific transactions is not available including time, date, place, and individual responsible for the transaction.
ADDAM Reports	5. Reports that assist management review of time entries. Refer to the additional information for a list of deficiencies.	<ul style="list-style-type: none"> • The current ADDAM reports are missing information needed for management review and are difficult to use. • Total hours worked by an employee is not provided on a PEN or global basis. Employees are listed on as many lines in the report as they have payment types. • Total hours for each type of hour worked (for example, overtime) within a PEN is not provided. • Reports are only available on a pay period basis. Flexible reporting periods including months, quarters, and years are required for management analysis and budgeting. • Reports are not historically accurate and cannot be relied on for planning or review purposes since terminated employees are not included. • The information in IVRs is misleading since post pay-period error adjustments are entered in Cyborg not ADDAM. IVRs only report information entered in ADDAM.
Overtime	<p>6. Daily and pay period limits on the number of regular hours entered for each employee.</p> <p>7. Overtime to regular hour ratios should automatically be tested for reasonableness.</p>	<ul style="list-style-type: none"> • There are no limitations on the number of regular hours that can be entered daily, weekly, or per pay period. • In the four pay periods sampled there were 118 employees with more than 80 regular hours in a pay period including two employees with 152 regular hours. • There are employees credited with only working overtime hours in a pay period or with high ratios of overtime hours to regular hours. • There is no automated monitoring of overtime eligibility for employees working for multiple PENs and managers.



ANNEX D

Category	Recommended Control	Additional Information/Audit Observations
Alternate Rate	<p>8. Limit alternate rate choices to ensure compliance with collective bargaining agreements.</p> <p>9. All payroll reports including pay stubs should clearly identify alternate rates used.</p>	<ul style="list-style-type: none"> • The alternate rate function allows managers to change the hourly rate of employees to any value between \$1 and \$90. The function is needed for reasons such as acting pay and for employees who work more than one position. • The function is used regularly—4.3% of entries over four pay periods sampled. • Errors in samples included using rates not specified in collective bargaining agreements and choosing incorrect acting pay rates. • Alternate rates are not reported in the combined register or on employee pay stubs. Amounts are included in the regular hour's line. Employees and managers cannot easily verify that the pay is correct.
Minimum Hours	<p>10. Minimum hour requirements for daily entries.</p>	<ul style="list-style-type: none"> • Collective bargaining agreements and HR Policy stipulate the minimum number of hours an employee is to be paid per shift, call-in, and callback. • There were 647 instances where employees were credited with less than the daily minimum in the one pay period reviewed. It would cost \$8,073 to increase these entries to the minimum. Non-compliance with minimum hour requirements is an ongoing systemic issue. • Manual review of the high volume of daily entries and dependence on managers for accurate and knowledgeable entries is not feasible.
Statutory Holidays	<p>11. Only worked holiday hours should be allowed to be entered on stat holidays.</p> <p>12. The worked holiday function should only be available on stat holidays.</p> <p>13. Managers should be reminded on stat holidays that only worked hours should be entered.</p>	<ul style="list-style-type: none"> • HR is responsible for entering all non-worked stat hours into Cyborg. According to HR, managers enter non-worked hours at regular rates on stat holidays resulting in double payments. • In the six national stat holidays sampled, 19% (309) of the employees had regular rate hours entered in ADDAM. On Labour Day, 83% of the bases had employees with regular rate hours entered. These employees were either double-paid or underpaid depending on whether they worked on the stat holiday. Canada Day is not included in the above sample due to the high volume of errors and corrections in 2007. • The worked holiday code is also used in error on regular workdays. Over three pay periods there were 106 employees with worked holiday premium pay on regular workdays.



ANNEX D

Category	Recommended Control	Additional Information/Audit Observations
Maximum Hours per Day	14. Limit the daily number of hours entered per employee to a maximum of 24.	<ul style="list-style-type: none"> This control is included in ADDAM but is not working. An employee in the sample was credited with working 24.5, 26, and 30.75 hours during one day.
Double Entries	15. Limit the possibility of double entries. More specifically, each payment type should only be able to be entered one time per employee, per PEN, each day.	<ul style="list-style-type: none"> On four separate occasions, an employee had one payment type entered multiple times in the same day. All transactions were in the same PEN. The payment type is a reference to the coding of the hours worked such as regular hours, overtime, etc. Duplication errors can occur if the same transaction can be entered more than once in a day.
Employee Status	16. Monitor casual and part-time worked hours on an ongoing basis.	<ul style="list-style-type: none"> Employees exceeding the hour allotment for their status type could qualify for and demand extra collective bargaining benefits. HR is currently responsible for manually running reports and forwarding the information to managers. A more effective, efficient, and pro-active method is ongoing automated monitoring within ADDAM including immediate warnings to line managers and HR when thresholds may be crossed.
Collective Bargaining Agreements	17. Collective bargaining agreement and HR Policy information be included in ADDAM.	<ul style="list-style-type: none"> This control ties in with other recommendations. More specifically minimum hours, overtime thresholds, pay bands, and hour thresholds by employee status information are needed to fulfil the other recommended controls. In addition, the skills and knowledge of working with collective bargaining agreements varies widely amongst managers. This information needs to be built into the system if managers are going to have a high level of responsibility for meeting standards within the agreements.

