



## **Final (Deck-format) Report**

### **2008-720: Compensation Audit**

**Office of Audit and Evaluation (OAE)**

**July 11, 2013**



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# Main Points

- This audit was undertaken as part of the 2011-2016 Risk Based Audit and Evaluation Plan. The audit had two objectives:
  - 1) to determine whether the processes and procedures in place ensure that pay-related financial transactions are accurate, timely and compliant with selected policies and the relevant departmental and governmental regulations (2009-2010 and 2010-2011); and
  - 2) to determine whether selected areas of the Management Accountability Framework relating to high-risk components of compensation processes effectively support the management of compensation (2009-2010 to 2012-2013).
- The audit was approved in May 2013
- The following issues were noted regarding the processes and procedures in place for the delivery of Compensation Services to PWGSC employees:
  - Lack of data integrity in reports
  - Inadequate segregation of duties
  - Service standards used at PWGSC: non-compliance with TBS standards, lack of standardization within PWGSC, absence of a monitoring and reporting mechanism encompassing all pay transactions processed by the Department
  - Non-compliance with the FAA, PWGSC's delegation principles and the associated TBS policies (Sections 33 and 34 of the FAA)
- An overall error rate of 10% was noted for transactions in the audit sample.

# Main Points (con't)

- As a result, existing processes and practices are deemed insufficient to ensure that financial pay-related transactions are accurate, timely and compliant with the relevant policies.
- Significant issues were also noted regarding the Management Accountability Framework:
  - Limited coordination between Compensation Services at PWGSC and a lack of clarity with respect to the accountability framework between the regional offices and the NCR
  - No formal strategic plan is in place for the delivery of Compensation Services and their imminent centralization to Miramichi
  - No formal, structured risk management process exists for Compensation Service
- Consequently, existing organizational performance management practices are not deemed sufficient to effectively support the management of the compensation function.
- Management acted immediately with regard to specific findings on payments and developed an action plan (see Background).

# Recommendations

## Compliance (Objective 1)

- HRB's Assistant Deputy Minister, in collaboration with the regional offices and the third parties concerned should:
  1. Correct the data integrity issues in the reports used (RPS, HRMS, CTS, user lists, etc.) and implement quality assurance mechanisms to ensure that the management information used is complete and accurate.
  2. Implement appropriate mechanisms to ensure adequate segregation of duties in the management of RPS access rights and in the processing of pay transactions.
  3. Review all the service standards used at PWGSC to ensure that they comply with the standards prescribed in TBS's *Directive on Terms and Conditions of Employment* and that they are consistently applied throughout the Department.
  4. Develop as well as implement monitoring and reporting frameworks to ensure that pay transactions are processed accurately and in a timely manner across the Department.

# Recommendations (con't)

## Compliance (Objective 1) (con't)

- HRB's Assistant Deputy Minister, in collaboration with the Chief Financial Officer, should:
  5. Ensure that all individuals within Compensation Services who exercise financial authorities in the RPS pursuant to Sections 33 and 34 of the FAA have a valid written delegated financial authority that complies with PWGCS's *Delegation of Authorities Manual*. These delegations should also be periodically reviewed to ensure that delegated signing authorities continue to be valid.
  6. Develop and implement a framework "for the quality assurance of the adequacy of the account verification process" relating to PWGSC's pay transactions. This framework should comply with the requirements of TBS's *Directive on Account Verification*.

# Recommendations (con't)

## Management Accountability Framework (Objective 2)

- HRB's Assistant Deputy Minister, in collaboration with the regional offices, should:
  7. Develop and implement a formal accountability framework that clearly defines the roles, responsibilities and authorities regarding the coordination of efforts, monitoring and reporting for Compensation Services at PWGSC.
  8. Develop and implement a formal, integrated, multi-year and risk based strategic planning process for the delivery of Compensation Services to PWGSC employees. The resulting strategic plan should be reviewed annually to ensure its relevance and implementation. This plan should also address the implications of the imminent centralization of Compensation Services in Miramichi.

# Management's Response

- The Human Resources Branch has reviewed the audit of Compensation Services report. We accept the findings of this report and agree with all the recommendations.
- Management of the Human Resources Branch has already begun the implementation of the action plan attached and is pleased to confirm that several important changes to improve our processes and procedures are already in place. The attached action plan outlines the status of implementation as at September 30, 2013. Management continues to rigorously implement the outstanding corrective measures.



# Management Action Plan

1. HRB's Assistant Deputy Minister, in collaboration with the regional offices and the third parties concerned, should correct the data integrity problems in the reports provided (RPS, HRMS, CTS, user lists, etc.) and implement quality assurance mechanisms to ensure that the management information used is complete and accurate.
  - a) Regional Pay System (RPS):
    - i. Meet with a representative of the Accounting, Banking and Compensation Branch (ABCB) to present the deficiencies in the segregation of duties report produced by ABCB, and together identify the programming changes required to ensure that all transactions are complete and that the data necessary for analysis is complete. For example, from now on, use the authorization date rather than the transaction creation date in the RPS data extraction in order to identify who completed each of the three steps necessary to process a pay transaction.

Status as reported by HRB: Full Implementation Completed
    - ii. Every quarter, cross-check a sampling of pay activities recorded in the Human Resources Management System (HRMS) and the tracking system with the data from the amended segregation of duties report.

Status as reported by HRB : Full Implementation Completed

# Management Action Plan (con't)

## b) Compensation Tracking System (CTS):

- i. Amend the ticket management procedure to clearly determine the usefulness and requirements of each field completed manually. Also change the ticket categories in the CTS to facilitate accurate identification of requests recorded in the system and used to generate service standards reports.

Status as reported by HRB : Not Started.

- ii. Provide training for those responsible for data entry in the CTS concerning amendments to the ticket management procedure.

Status as reported by HRB : Not Started.

- iii. Amend the checklists used by the compensation advisors to add a task for verifying the information contained in the tickets and ensure that any corrections are completed.

Status as reported by HRB : Full Implementation Completed

## c) List of Regional Pay System (RPS) users:

- i. Create a new list of RPS users that combines information on users in the NCR and the regions in an electronic version so that data can be cross-checked to meet the requirements set out in the On-Line Access and Security Management Guide.

Status as reported by HRB : Full Implementation Completed

# Management Action Plan (con't)

## c) List of Regional Pay System (RPS) users – (con't):

- ii. Update the new list of RPS users quarterly by comparing the data from that list with the RPS access rights report provided by Shared Services Canada (SSC).

Status as reported by HRB : Full Implementation Completed

- iii. Send a copy of the list of users to the team leads and managers quarterly in order to confirm that the list is up to date and immediately complete the required changes.

Status as reported by HRB : Full Implementation Completed

# Management Action Plan (con't)

2. HRB's Assistant Deputy Minister, in collaboration with the regional offices and the third parties concerned, should implement appropriate mechanisms to ensure adequate segregation of duties with respect to RPS access rights and to the processing of pay transactions in this system.

a) Segregation of duties related to management of RPS access rights:

- i. Delegate responsibility for updating the list of users to a person other than the one who gives RPS access.

Status as reported by HRB : Full Implementation Completed

- ii. Centralize the Security Access Control Officer (SACO) function in the NCR to ensure effective management of access rights while respecting the SACO's rights and responsibilities, as follows: ensure that there is only one access code per user, that access rights are suited to the individual's function and that user IDs are not assigned to another person (recycled).

Status as reported by HRB : Full Implementation Completed

- iii. Assign responsibility for analyzing, on a quarterly basis, the reports provided by SSC concerning user IDs, access rights and segregation of SACO duties to a Corporate Compensation Officer (not the SACO).

Status as reported by HRB : Full Implementation Completed

# Management Action Plan (con't)

## b) Segregation of duties related to pay transactions in the RPS:

- i. Obtain a complete segregation of duties report from ABCB (see tracking measure 1 a)) to enhance the effectiveness of the quarterly monitoring. In addition, centralizing and strengthening the responsibilities of the SACO function in the NCR will ensure closer control over management of RPS user access rights and thus ensure that the data on users in the segregation of duties report is reliable. Transactions at risk that are not compliant are analyzed, and results are reported to managers.

Status as reported by HRB : Full Implementation Completed

# Management Action Plan (con't)

3. HRB's Assistant Deputy Minister, in collaboration with the regional offices and the third parties concerned, should review all the service standards used at PWGSC to ensure that they comply with the standards set out in TBS's *Directive on Terms and Conditions of Employment* and that they are consistently applied throughout the Department.

a) Service standards compliance:

- i. Initial appointment: PWGSC's Service Standards have been designed in compliance with the spirit of the Directive on Terms and Conditions of Employment which states that employees should receive their first pay within ten days of their initial appointment. Compensation Services have developed service standards following extensive analysis and taking into account the restrictions imposed by processes that occur prior and following the pay transaction.
  - Process prior to the pay transaction: An analysis of all transactions for incoming employees since April 1<sup>st</sup>, 2012, has revealed that Compensation Services receive employees' letters of offer 77% of the time after their start date.
  - Process following the pay transaction: ABCB, manager of the Regional Pay System, imposes a seven-work-day delay for making payments once Compensation Services have completed its processing of incoming employees. These delays imposed by stakeholders outside of Compensation Services greatly restricts our ability to comply with the *Directive on Terms and Conditions of Employment's* service standards, i.e. an employee will receive a first pay within ten days of his/her start date.

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# Management Action Plan (con't)

## a) Service standards compliance (con't):

That being said, the Human Resources Branch is already working with key stakeholders such as the Treasury Board Secretariat and the Accounting, Banking and Compensation Branch to see how *the Directive on Terms and Conditions of Employment's* standards can better take into consideration restrictions imposed by current processes and systems. Moreover, the Human Resources Branch is currently implementing the Common Human Resources Business Process to standardize administrative processes that have a direct impact on our ability to meet our service standards. We will also review our business process to streamline the communication of documents from staffing services to compensation services.

TBS, in a written explanation of the department's obligation, acknowledges that complying to the ten-day rule is unreasonable: "While adhering to these pay timeliness standards for TOS and SOS payments may sometimes not be practical or reasonable particularly when the authorizing document is not provided in a timely manner, an emergency salary advance should be offered to the employee." Therefore, the only available mechanism to ensure a level of compliance is the issuance of emergency salary advances for all cases that may require more than ten days. However, automatically proceeding in such a fashion would disproportionately increase the burden of recovering the advanced funds as well as the risks of non-recovered debts to the Crown.

Status as reported by HRB : Partial Implementation Completed

- ii. Termination of employment: Analyze the processes based on the criteria established for prior and subsequent compensation processes. Based on the results, change the PWGSC Compensation service standards.

Status as reported by HRB : Full Implementation Completed

# Management Action Plan (con't)

## a) Service standards compliance (con't):

- iii. Changes in pay: Analyze internal and subsequent compensation processes. Based on the results, change the PWGSC Compensation service standards.

Status as reported by HRB : Full Implementation Completed

## b) Consistent application of service standards throughout the Department:

- i. Send a message from the Director of Compensation to all PWGSC compensation offices reminding them that the service standards to be followed are those posted on the HRB intranet site.

Status as reported by HRB : Full Implementation Completed

- ii. Add a direct link to the service standards intranet page on each regional intranet site.

Status as reported by HRB : Full Implementation Completed

- iii. Measure the consistent application of service standards through activities provided for in the Compensation Monitoring Framework.

Status as reported by HRB : Full Implementation Completed. Ongoing process since fully implemented



# Management Action Plan (con't)

4. HRB's Assistant Deputy Minister, in collaboration with the regional offices and the third parties concerned, should develop and implement monitoring and reporting mechanisms to ensure that pay transactions are processed accurately and in a timely fashion at PWGSC.

a) Compensation Monitoring Framework:

- i. Put in place the tools required to implement the Compensation Monitoring Framework, which was developed by Compensation Services in consultation with the Finance Branch (FB). The monitoring framework evaluates whether the processes, procedures, practices and controls in place are effective through verification of a sample of compensation activities. The activities monitored are selected on a risk management basis, and the results are to be reported annually to the DG, Labour Relations, OHS, Compensation, Ethics and Well-Being, and the regional directors.

Status as reported by HRB : Full Implementation Completed

- ii. Provide Compensation Services in the regions with tools that enable them to measure their compliance with the Compensation Service Standards.

Status as reported by HRB : Full Implementation Completed

- iii. In the NCR and the regions, audit pay transaction processing times in accordance with applicable service standards through activities provided for in the Compensation Monitoring Framework.

Status as reported by HRB : Substantial Implementation Completed

# Management Action Plan (con't)

## a) Compensation monitoring Framework (cont'd):

- iv. Implement the Compensation Monitoring Framework approved by the ADM, HRB and the Chief Financial Officer.

Status as reported by HRB : Full Implementation Completed

# Management Action Plan (con't)

5. HRB's Assistant Deputy Minister, in collaboration with the Chief Financial Officer, should ensure that all individuals who work at Compensation Services and who exercise financial authorities in the RPS under sections 33 and 34 of the FAA have written delegated financial authority that is valid and complies with PWGSC's delegated financial authorities manual. These delegations should also be periodically reviewed to ensure that delegated signing authorities continue to be valid.

a) Delegation forms in the NCR and the regions (PWGSC 451):

- i. Ensure that the delegation of authorities form (PWGSC 451) is completed by every individual who currently exercises sec. 33 authority in Compensation and is approved by the Director of Compensation for the NCR and the regional directors for the regions. FB will add compensation services to its periodic review exercise already in place.

Status as reported by HRB : Full Implementation Completed

- ii. Ensure that the delegation of authorities form (PWGSC 451) is completed by every individual who exercises sec. 34 authority in Compensation and is approved by the Director of Compensation for the NCR and the regional directors for the regions. FB will add compensation services to its periodic review exercise already in place.

Status as reported by HRB : Full Implementation Completed

# Management Action Plan (con't)

## b) Training:

- i. Develop training and deliver it to compensation advisors in the NCR and the regions to whom signing authority under section 34 of the FAA has been delegated.

Status as reported by HRB : Full Implementation Completed

# Management Action Plan (con't)

6. HRB's Assistant Deputy Minister, in collaboration with the Chief Financial Officer, should develop and implement mechanisms "for the quality assurance of the adequacy of the account verification process" for PWGSC pay transactions, as set out in TBS's *Directive on Account Verification*.

a) Compensation Monitoring Framework:

- i. Finalize the development of the Compensation Monitoring Framework.

Status as reported by HRB : Full Implementation Completed

- ii. Have the ADM, HRB, and the Chief Financial Officer (CFO) sign off on the Compensation Monitoring Framework.

Status as reported by HRB : Full Implementation Completed

- iii. Begin the activities in relation to the quality assurance of the adequacy of the account verification process for pay transactions, as defined in the Compensation Monitoring Framework.

Status as reported by HRB : Full Implementation Completed

- iv. Submit quarterly reports to the CFO on the results of activities in relation to the quality assurance of the adequacy of the account verification process for pay transactions.

Status as reported by HRB : Substantial Implementation Completed

# Management Action Plan (con't)

## a) Compensation Monitoring Framework (con't):

- v. Report highlights, trends and results of monitoring activities defined in the Compensation Monitoring Framework on a monthly basis to the ADM, HR.

Status as reported by HRB : Full Implementation Completed

- vi. Report errors identified through monitoring activities to Compensation Managers for immediate corrective action. A team has been established to ensure daily monitoring of activities. A follow-up of errors with financial impacts identified by the internal audit has determined that 100% of underpayments have been corrected and that the process to recover overpayments has been initiated for all cases. Supporting documents have been provided to internal auditors.

Status as reported by HRB : Full Implementation Completed

# Management Action Plan (con't)

7. HRB's Assistant Deputy Minister, in collaboration with the regional offices, should develop and implement a formal accountability framework that clearly defines the roles, responsibilities and authorities with respect to co-ordination, monitoring and reporting for Compensation Services at PWGSC.

a) Accountability Framework:

- i. Change the Human Resources Management Framework to clearly define the roles and responsibilities of Compensation Services and HRB's functional authority with respect to the regional compensation offices.

This measure will strengthen mechanisms and processes already in place, such as:

- Training delivered to all compensation offices
- Regular communications from the corporate compensation team about changes to policies, directives and terms and conditions of employment
- Monthly meetings by teleconference with the Regional Compensation Managers
- Collaboration of the regions and the NCR to implement the project "Common Human Resources Business Process"
- Development and sharing of work tools such as checklists, standard letters, etc.

Status as reported by HRB : Full Implementation Completed

- ii. Obtain ADM, HR approval for the amended Human Resources Management Framework and distribute to all members of the HR management team, including the regional HR directors.

Status as reported by HRB : Full Implementation Completed

# Management Action Plan (con't)

## a) Accountability Framework (con't):

- iii. Present changes to the framework during a regular teleconference with the managers of Compensation Services in the regions.

Status as reported by HRB : Full Implementation Completed



# Management Action Plan (con't)

8. HRB's Assistant Deputy Minister, in collaboration with the regional offices, should Develop and implement a formal, integrated, multi-year strategic planning process based on the risks associated with the delivery of compensation services to PWGSC employees. The resulting strategic plan should be reviewed annually to ensure its relevance and implementation. This plan should also address the implications of the imminent centralization of compensation services in Miramichi.

a) Strategic planning:

- i. Develop a 2012–2015 strategic plan for compensation services based on risk management. Submit a follow-up report to the ADM, HRB on a semi-annual basis to report on progress against performance indicators.

Status as reported by HRB : Full Implementation Completed

- ii. Develop a specific strategic plan for the transition of compensation services to the Pay Centre in Miramichi (including the human resources, business processes and information technology components). Submit a follow up report to the ADM, HRB on a semi-annual basis to report on progress against performance indicators.

Status as reported by HRB : Full Implementation Completed

Management Action Plan approved by:

Marielle Doyon, Acting Assistant Deputy Minister Human Resources Branch, December 21, 2012

Alex Lakroni, Chief Financial Officer Finance Branch, January 10, 2013

# Background

- As of March 31<sup>st</sup> 2011, Public Works and Government Services Canada's (PWGSC) total workforce was 15,651, a net increase of 610 employees (4.1%) from the previous fiscal year. Indeterminate employees comprised 90% (14,073) of the Department's total population on March 31<sup>st</sup> 2011.
- PWGSC's total workforce decreased by 1,931 employees (12.3%) during 2011-2012 and amounted to 13,720 as of March 31<sup>st</sup> 2012. This decrease mostly results from the transfer of employees to Shared Services Canada. As of March 31<sup>st</sup> 2012, indeterminate employees comprised 92% (12,670) of the Department's total population.
- According to the *Public Accounts of Canada*, PWGSC's personnel expenditures totalled \$1.2 billion in 2009-2010 and 2010-2011, accounting for 19% of the Department's total expenditures in 2009-2010 and 18% in 2010-2011.
- Preliminary numbers for PWGSC's 2011-2012 public accounts provided by Finance Branch indicate \$1.2 billion in personnel expenditures, accounting for 20% of the Department's total expenditures that year. The *Public Accounts of Canada* for fiscal year 2011-2012 will be officially published around October 2012.

# Background (con't)

- According to reports provided by Compensation Services, the number of pay transactions for PWGSC employees totalled 398,892 in 2009-2010 and 161,465 in 2010-2011. As per PWGSC's Human Resources Branch (HRB), the renegotiation of collective agreements accounted for most of the increased volume in 2009-2010.
- Total compensation is governed by several statutes, regulations, collective agreements, policies, directives as well as terms and conditions that are the responsibility of the employer.
- At PWGSC, the National Capital Region (NCR) and each of the regional offices have their own Compensation Services. HRB's Assistant Deputy Minister is responsible for the NCR's Compensation Services, whereas Compensation Services in the regional offices fall under the purview of their respective Regional Director General. The NCR's Compensation Services also plays a role in the coordination of the various pay offices (e.g. development of common work tools).
- On August 19<sup>th</sup> 2010, the Prime Minister announced that the Government of Canada would consolidate its Compensation Services to form a new centre of expertise in Miramichi, New Brunswick. At PWGSC, the transfer is planned for 2015 and will be carried out in two phases:
  - Phase 1: January 2015
  - Phase 2: April 2015

# Background (con't)

- Given the materiality as well as complexity of compensation, it is essential that PWGSC has an effective management framework and adequate control mechanisms to ensure the accuracy, compliance and timeliness of compensation transactions.
- To obtain reasonable assurance in this regard, an internal audit of Compensation Services was initiated for the first time in July 2008. The timelines for this engagement, however, were updated on three separate occasions for the following reasons:
  - On February 26<sup>th</sup> 2009, audit work was postponed until the fall of 2009 at the request of HRB to provide Compensation Services with sufficient time to process the increased business volume resulting from the renegotiation of collective agreements.
  - In the fall of 2009, the Office of Audit and Evaluation delayed the reinitiating of the audit until October 18<sup>th</sup> 2010, in order to prioritize engagements associated with the Accelerated Infrastructure Program.
  - The presentation of the final audit report was postponed due to unexpected delays in the examination phase resulting from the following:
    - unforeseen changes in the audit team's personnel; and
    - issues with the reliability of the data provided by Compensation Services for sampling and transaction testing purposes.

# Background (con't)

- Errors with monetary impact (overpayments or underpayments) were found in 28 files selected by the OAE between 2011 and 2012. The OAE communicated the errors found to Compensation Services in a timely manner as the errors were identified between June 2011 and June 2012. Compensation Services acknowledged the errors and made the appropriate corrections, in a timely manner, typically within one week of being notified of the error. The corrections by the OPI included the recovery of the funds in cases of overpayments and payments in cases of underpayments.
- In June 2012, the OAE highlighted to Compensation Services the opportunity to review each compensation file and to correct errors, if any, prior to the transfer of Compensation Services to Miramichi. Compensation Services committed to do so.
- Audit work was completed in July 2012.
- Overall observations were formally shared with the OPI in July 2012 and a management action plan was drafted by Compensation Services in a timely manner.

# About the Audit

## Objectives and criteria

The purpose of this audit was to determine whether:

### Compliance

1. The processes and procedures in place ensure that pay-related financial transactions are accurate, timely and compliant with selected policies and the relevant departmental and governmental regulations.

Criterion 1.1: Compensation Services has adequate mechanisms in place to ensure accurate and timely processing of pay transactions that comply with selected policies.

### Management Accountability Framework

2. Selected areas of the Management Accountability Framework relating to high-risk components of compensation processes effectively support the management of compensation.

Criterion 2.1: Compensation Services has adequate mechanisms in place to attract, recruit, train and retain appropriate people.

Criterion 2.2: Compensation Services has adequate mechanisms in place to manage performance (organizational and individual) and risk.

# About the Audit (con't)

## Scope

- Fiscal years
  - Objective 1 (Compliance): 2009-2010 and 2010-2011
  - Objective 2 (Management Accountability Framework): 2009-2010 to 2012-2013
- National Capital Region (NCR)
- Regional offices: Atlantic, Western and Quebec (selected following a risk assessment)
- Full-time indeterminate employees
- Transactions audited (selected following a risk assessment):
  - Transfer in (TIN): entries into the Department following deployment from another federal government department in the core public administration of the federal public service
  - Taken on Strength (TOS): entries into the Department following recruitment from outside the core public administration of the federal public service
  - Struck off Strength (SOS)-Retirement: departures due to retirement

# About the Audit (con't)

## Scope – Audit of pay transactions

- For the purpose of this audit, a “transaction” corresponds to a “pay action”, within the meaning of PWGSC’s *Personnel-Pay Input Manual*.
- A pay action is defined as “any input to the Regional Pay System (RPS) required for the purpose of personnel-pay administration.”
- A given pay action may result in several types of payments. Following a risk assessment, the following types of payments were selected regarding the transactions targeted:
  - TIN and TOS
    - Input of the first paycheque into the RPS
  - SOS-Retirement
    - Last regular paycheque
    - Severance pay
    - Payment of unused leave



# About the Audit (con't)

## Preliminary survey

- A preliminary survey was conducted to determine the relevancy of an audit as well as to identify the key issues and risks. The survey results demonstrated that an audit was necessary.

## Methodology

- In order to gather the required audit evidence, the audit team used the following methods:
  - Interviews with representatives from Compensation Services in the NCR and in the selected regional offices
  - Mapping of business processes in place relating to the transactions selected
  - Review of relevant documentation provided by the selected Compensation Services
  - Review of targeted, past audit results
  - Audit of a judgemental sample of transactions (audit objective 1 only)
- For audit objective 1 (compliance), the size of the judgemental sample selected: 295 transactions (176 transactions in 2009-2010 and 119 transactions in 2010-2011) - see Appendix A. While not a statistical sample, based on professional judgement, the OAE believes this sample size was appropriate in identifying any systemic issues.

# About the Audit (con't)

## Method for communicating audit results

- Given the length of this engagement and importance of the audit observations, the Office of Audit and Evaluation has deemed it essential to issue a deck-format report in order to communicate its observations in a timely manner. Compensation Services will therefore have the information required to take corrective action more rapidly.

# Statement of Conformance

- The audit conforms with the Internal Auditing Standards for the Government of Canada, as supported by the results of the quality assurance and improvement program. Sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the findings and conclusions in this report and to provide an audit level of assurance. The findings and conclusions are 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 findings and conclusion are only applicable to the entity examined and for the scope and time period covered by the audit.

# Observations relating to PWGSC's Compensation Services



# Organizational Performance Management of Compensation Services

***There is no formal accountability framework in place to ensure effective coordination of Compensation Services at PWGSC.***

- Based on the information gathered, Compensation Services in the NCR ensures a limited coordination of Compensation Services between the different PWGSC regional offices. The coordination essentially consists in developing common work tools and organizing ad hoc meetings. This role is documented in the work description of the Manager, Corporate Compensation (NCR).
- However, the NCR does not have any formal authority to coordinate Compensation Services at PWGSC. In this regard, some ambiguity was noted with respect to the description of roles and responsibilities for the various stakeholders. Without any formal documents (e.g. a charter) clearly describing each stakeholder's roles and responsibilities, it is difficult to effectively coordinate Compensation Services at PWGSC.

# Organizational Performance Management of Compensation Services (con't)

***Staffing needs are planned by Compensation Services. However, no formal, integrated, risk-based strategic plan is available for the delivery of these services at PWGSC.***

- Compensation Services has a formal annual plan covering staffing needs, but does not have a formal strategic plan.
- A transition committee was created in April 2012 for the centralization of Compensation Services in Miramichi. However, a clearly documented, complete and integrated plan is currently not available to manage the resulting changes (e.g. career management for compensation advisors, business processes...).
- Compensation Services manage risks informally on an ad hoc basis (e.g. during meetings). However, there is no formal, structured risk management process in place at the strategic or operational levels.

# Reliability of Reports

***The majority of reports provided by Compensation Services during the audit had data integrity issues.***

- In most of the lists obtained from the Human Resources Management System (HRMS), the Regional Pay System (RPS) and the Compensation Tracking System (CTS), there were missing and incorrectly categorized transactions. Complete and accurate populations for the transactions selected could therefore not be obtained for the selection of the audit sample.
- Some of these reports are prepared by third parties, according to the specifications provided by Compensation Services (e.g. by the Accounting, Banking and Compensation Branch (ABCB) and the Business Systems and New Initiatives Directorate (BSNI)).
- In the absence of reliable information, Compensation Services runs the risk of making decisions based on inaccurate and/or incomplete information.

# Segregation of Duties

***The controls implemented by Compensation Services are insufficient to ensure adequate segregation of duties in the management of RPS access rights and in the processing of pay transactions.***

- There is a lack of segregation of duties with respect to the Security access control officers (SACOs) responsibilities for the management of access rights to the RPS within the selected Compensation Services. SACOs receive access requests, authorize requests, provide access rights, update access rights, compile and maintain the lists of users who have access to the system in addition to verifying the accuracy of these lists. Some SACOs also have other types of access rights to the RPS, which allow them to process pay transactions. As a result of this lack of segregation of duties, there is an increased risk of erroneous or improper transactions.
- There is also a lack of segregation of duties with respect to several individuals responsible for processing pay transactions within the selected Compensation. Some have access rights that allow them to both create and verify the same pay transaction, while others are also able to authorize these transactions under one or more user IDs.
- The monitoring mechanism implemented by NCR's Compensation Services to ensure effective segregation of duties in the processing of pay transactions within the RPS is inadequate. This activity is performed using incomplete reports that list only the user IDs of individuals who processed pay transactions in the RPS. In this regard, more than one user ID can be assigned to the same person, and a given user ID can be assigned to more than one person over a period of time. Moreover, the user lists used to identify individuals associated with the various user IDs at a specific date are also incomplete and inaccurate.



# Timeliness

***Most of the transactions that were selected and verified by the audit team were processed in a timely manner. However, issues deemed significant were noted regarding the service standards used at PWGSC and their associated monitoring and reporting mechanisms.***

- **Service standards used at PWGSC**
  - The service standards used vary from one region to another.
  - Several gaps were noted with TBS standards; 43% of the service standards on PWGSC's Intranet differ from those prescribed by TBS.
  - The service standards used are open to different interpretations by employees responsible for measuring compliance with these standards.
  - The service standards used in the Western regional office were last updated over 20 years ago and some of the terminology used is now outdated.
  - In the Atlantic and Western regional offices, the service standards used are not formally communicated to employees.
- **Timeliness of the transactions audited**
  - 91% were processed within the timelines outlined in PWGSC service standards\*
  - 63% were processed within the timelines prescribed by TBS Standard of timeliness\*

\* It should be noted that for several of these transactions, however, Compensation Services was able to meet the targeted timelines by circumventing the requirement that pay transactions be processed only after having received all the required documentation. This practice is inconsistent with the service standards used within PWGSC as well as TBS's Standard of timeliness. It also increases the risk of errors and non-compliance of pay transactions.

# Timeliness (con't)

- **Monitoring and reporting mechanisms**
  - During the audit period, no mechanism has been implemented to measure and report on compliance with service standards used in the Atlantic, Western and Quebec regional offices. The Quebec Region, however, did implement this type of mechanism subsequent to the audit period (in November 2011).
  - During the audit period, these mechanisms were put in place for pay transactions processed by staff in the NCR's Compensation Services. However, the following issues were noted regarding the measurement of compliance with service standards used:
    - The measurement unit used for most of the transactions selected was not aligned with the corresponding service standard on PWGSC's Intranet;
    - Inconsistent measurement of compliance with service standards for the transactions selected;
    - Presence of inaccurate data in the management reports used to measure compliance with service standards;
    - Transactions for which compliance with service standards was never measured.

# Payment Authority for Salary Expenditures (Section 33 of the FAA)

***Payment requisitions for salary expenditures did not comply with Section 33 of the Financial Administration Act (FAA).***

- The gaps identified pertained to the following Subsections of Section 33 of the FAA:
  - “(1) No charge shall be made against an appropriation except on the requisition of the appropriate Minister of the department for which the appropriation was made or of a person authorized in writing by that Minister.”
  - “(2) Every requisition for a payment out of the Consolidated Revenue Fund shall be in such form, accompanied by such documents and certified in such manner as the Treasury Board may prescribe by regulation.”
- In the Atlantic and Quebec regions as well as the NCR, payment requisitions for pay transactions are completed by Compensation Service staff who do not have a written delegation of authority in this regard. In the Western Region, most of these individuals obtained such a delegation, but this authority has not been documented using the delegation form prescribed by PWGSC.
- Pursuant to TBS’s *Directive on Account Verification*, PWGSC must have mechanisms “for the quality assurance of the adequacy of the account verification process.” “When exercising payment authority pursuant to section 33 of the Financial Administration Act,” financial officers must ensure that such mechanisms are in place. At this time, PWGSC does not have this type of mechanism in place for pay transactions.

# Performance Confirmation Authority (Section 34 of the FAA)

***Individuals responsible for verifying pay inputs in the RPS have not been delegated Section 34 FAA authority. Furthermore, the basis on which this activity was performed for several of the transactions sampled was supported by an incomplete audit trail.***

- TBS's *Guideline on Common Financial Management Business Process for Pay Administration* states that "compensation advisors should be delegated s. 34 FAA authority to fulfill the verification for pay input." At PWGSC, salary payments in the RPS are verified by individuals who have not been delegated this authority.
- According to TBS's *Directive on Account Verification*, "individuals who have been delegated authority to confirm and certify entitlement are responsible for the following: ...they are to verify...that the supporting documentation is complete (i.e., it allows maintenance of an audit trail, demonstrates agreed price and other specifications, and demonstrates receipt of goods or services and authorization according to the delegation of financial signing authorities." For several transactions audited, the audit trail available in the compensation files was incomplete. This appears to be largely due to a lack of standardization in the content of compensation files.

# Accuracy of Pay Transactions – Errors rates observed in the Sample of 295 Transactions

Types of transaction audited	Overall error rates	Error rates per selected region			
		Atlantic	NCR	Quebec	Western
TIN	8% (8/104)	12% (2/17)	7% (4/55)	7% (1/15)	6% (1/17)
TOS	7% (6/83)	7% (1/15)	15% (5/34)	0% (0/16)	0% (0/18)
SOS-Retirement	14% (15/108)	40% (8/20)	7% (4/56)	6% (1/16)	13% (2/16)
<b>Total</b>	<b>10% (29/295)</b>	<b>21% (11/52)</b>	<b>9% (13/145)</b>	<b>4% (2/47)</b>	<b>6% (3/51)</b>

- Only errors that had a financial impact are included in the table above.
- These errors were not detected by the existing management controls.
- Pay transactions are not covered by the PWGSC Finance Branch *National Accounts Verification Framework*.

# Details of the Errors Observed by Region

Regions	Total amount of errors *Absolute value	Average error	Maximum over-payment	Minimum over-payment	Maximum under-payment	Minimum under-payment
NCR	\$17,689.97	\$1,360.77	\$736.72	\$29.48	\$6,559.08	\$13.80
Atlantic	\$5,993.19	\$544.84	\$2,374.50	\$42.31	\$543.54	\$9.71
Quebec	\$1,929.21	\$964.61	\$1,391.97	None	\$537.24	None
Western	\$9,877.01	\$3,292.33	\$4,626.69	None	\$5,237.98	\$12.34
<b>Total</b>	<b>\$35,489.38</b>					

*For more details on the Errors Observed by Region, please refer to Appendix B*

# Conclusions

## Compliance (objective 1)

- The following issues were noted regarding the processes and practices in place for the delivery of Compensation Services to PWGSC employees:
  - Lack of data integrity in reports
  - Inadequate segregation of duties
  - Service standards used at PWGSC: non-compliance with TBS standards, lack of standardization within PWGSC, absence of a monitoring and reporting mechanism encompassing all pay transactions processed by the Department
  - Non-compliance with the FAA, PWGSC's delegation principles and the associated TBS policies (Sections 33 and 34 of the FAA)
- An overall error rate of 10% was noted for transactions in the audit sample.
- As a result, existing processes and practices are deemed insufficient to ensure that financial pay-related transactions are accurate, timely and compliant with the relevant policies.

# Conclusions (con't)

## Management Accountability Framework (Objective 2)

- Significant issues were also noted regarding the Management Accountability Framework:
  - Limited coordination between Compensation Services at PWGSC and a lack of clarity with respect to the accountability framework between the regional offices and the NCR
  - No formal strategic plan is in place for the delivery of Compensation Services and their imminent centralization to Miramichi
  - No formal, structured risk management process exists for Compensation Services
- Consequently, existing organizational performance management practices are not deemed sufficient to effectively support the management of the compensation function.



## Appendix A: Selected Sample

Number of transactions selected for the 2009-2010 fiscal year					
Transactions	NCR	Atlantic	Western	Quebec	Total
TIN	40	6	12	10	68
TOS	18	6	12	7	43
SOS-Retirement	41	8	6	10	65
<b>Subtotal</b>	<b>99</b>	<b>20</b>	<b>30</b>	<b>27</b>	<b>176</b>
Number of transactions selected for the 2010-2011 fiscal year					
Transactions	NCR	Atlantic	Western	Quebec	Total
TIN	15	11	5	5	36
TOS	16	9	6	9	40
SOS-Retirement	15	12	10	6	43
<b>Subtotal</b>	<b>46</b>	<b>32</b>	<b>21</b>	<b>20</b>	<b>119</b>
<b>Total</b>	<b>145</b>	<b>52</b>	<b>51</b>	<b>47</b>	<b>295</b>

## Appendix B – Details of all the Errors Observed by Region

### Taken on Strength (TOS) Transactions

Regions	Total amount of errors <small>*Absolute value</small>	Average error	Maximum over-payment	Minimum over-payment	Maximum under-payment	Minimum under-payment
NCR	\$6,224.23 (5 errors)	\$1,244.85	\$209.64	\$29.48	\$3,066.95	\$13.80
Atlantic	\$873.54 (1 error)	\$873.54	\$873.54	\$873.54	None	None
Quebec	None	None	None	None	None	None
Western	None	None	None	None	None	None
<b>Total</b>	<b>\$7,097.77</b>					

## Appendix B– Details of all the Errors Observed by Region (con't)

### Transfer In (TIN) Transactions

Regions	Total amount of errors <small>*Absolute value</small>	Average error	Maximum over-payment	Minimum over-payment	Maximum under-payment	Minimum under-payment
NCR	\$8,262.28 (4 errors)	\$2,065.57	\$463.50	\$463.50	\$6,559.08	\$161.96
Atlantic	\$68.53 (2 errors)	\$34.27	\$42.31	\$42.31	\$26.22	\$26.22
Quebec	\$537.24 (1 error)	\$537.24	None	None	\$537.24	\$537.24
Western	\$4,626.69 (1 error)	\$4,626.69	\$4,626.69	\$4,626.69	None	None
<b>Total</b>	<b>\$13,494.74</b>					

## Appendix B – Details of all the Errors Observed by Region (con't)

### Struck off Strength (SOS) Transactions

Regions	Total amount of errors <small>*Absolute value</small>	Average error	Maximum over-payment	Minimum over-payment	Maximum under-payment	Minimum under-payment
NCR	\$3,203.46 (4 errors)	\$800.87	\$736.72	\$736.72	\$894.21	\$724.40
Atlantic	\$5,051.12 (8 errors)	\$631.39	\$2,374.50	\$498.51	\$543.54	\$9.71
Quebec	\$1,391.97 (1 error)	\$1,391.97	None	None	\$1,391.97	\$1,391.97
Western	\$5,250.32 (2 errors)	\$12.34	None	None	\$5,237.98	\$12.34
<b>Total</b>	<b>\$14,896.87</b>					