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Audit of Civilian Pay Management



November 2019

1259-3-0019 (ADM(RS))

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Acronyms and Abbreviations

ADM(Fin)	Assistant Deputy Minister (Finance)
ADM(HR-Civ)	Assistant Deputy Minister (Human Resource - Civilian)
ADM(IM)	Assistant Deputy Minister (Information Management)
ADM(Mat)	Assistant Deputy Minister (Materiel)
ADM(PA)	Assistant Deputy Minister (Public Affairs)
ADM(RS)	Assistant Deputy Minister (Review Services)
CFB	Canadian Forces Base
DND	Department of National Defence
FCR	Financial Controls and Reconciliation
FY	Fiscal Year
HR	Human Resources
HRMS	Human Resource Management System
HRSS	Human Resources Support System
L1	Level One
NCCS	National Civilian Compensation Support
OAG	Office of the Auditor General
OCI	Office of Collateral Interest
OPI	Office of Primary Interest
PSES	Public Service Employee Survey
PSPC	Public Services and Procurement Canada
QA	Quality Assurance
SFT	Salary Forecasting Tool

Results in Brief

Issues with the Phoenix pay system and its implementation have been well-documented and reported. In response, the Government of Canada, and the Department of National Defence (DND), have developed numerous action plans and initiatives to address these issues and support affected employees.

DND's HR-to-Pay Integrated Action Plan focuses on resolving pay issues under three pillars: People, Process and Technology. To ensure the successful implementation of this action plan, strong collaboration and support is required from all organizations within the Department.

Resolving employee pay issues is a top priority for DND. For that reason, and as per the Assistant Deputy Minister (Review Services) (ADM(RS)) Risk-based Audit Plan for fiscal years (FY) 2016/17 to 2018/19, an audit of Civilian Pay Management was conducted.

Findings and Recommendations

Capacity: The current compensation staffing complement is unable to support the present demands and workload. To support in-progress capacity rebuilding efforts, a formal approach to professionalize and stabilize compensation capacity is needed to support the on-going and long-term needs of the Department.

Communication: There is no formal national communication strategy for compensation. Issue specific communications, based on user needs and targeted to specific audiences will allow the Department to reach all affected employees, including those who have retired or work in remote locations.

Timeliness: Pay transactions are not submitted or approved in a timely manner, which increases the risk of employees not being paid correctly or on time. A comprehensive guide that outlines employee and manager pay roles and responsibilities will help support the timely execution of their accountabilities.

Monitoring: Tracking and reporting of overpayments and underpayments is occurring. Additional controls are needed to ensure pay-related data is collected consistently across L1s. Limited quality assurance and data analysis of compensation information is being performed. Increased data analytics and trend analysis will support effective work planning, the identification of systemic issues and the efficient use of resources to target issue areas requiring attention.

Overall Assessment

DND continues to work hard to resolve civilian pay issues. The backlog of unresolved issues is decreasing, and the capacity of the compensation team is increasing.

Improvement is required in the areas of timely submission and approval of Section 34 pay transactions. Additional guidance, support and training will help employees and managers execute their pay-related duties.

Note: Please refer to [Annex A—Management Action Plan](#) for the management response to the ADM(RS) recommendations.

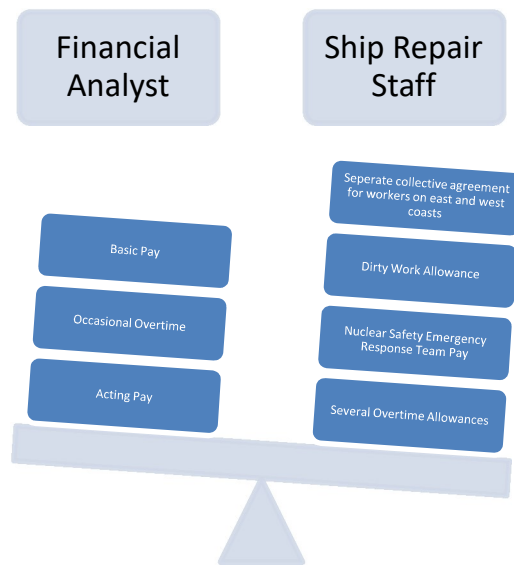
1.0 Introduction

As part of the Federal Public Service pay transformation initiative, Phoenix is the current pay system for federal public service employees, including DND. Phoenix was first implemented in February 2016 for 34 departments and agencies with the second phase occurring in April 2016 for the remaining departments and agencies, including DND. While civilian employees are paid through Phoenix, military personnel are paid through a different pay system – Guardian.

In 2016, as part of this same initiative, compensation services were centralized at the Public Service Pay Centre (Pay Centre) in Miramichi, New Brunswick, which is operated by Public Services and Procurement Canada (PSPC). The pay transformation initiative also marked a significant change in roles and responsibilities, as compensation accountabilities shifted from compensation staff within departmental human resources (HR) groups to the Level One (L1) organizations, employees and managers themselves.

1.1 Background

DND is a large, complex and geographically diverse organization in which military and civilian employees work together; with 28,000 civilian employees working across 40 locations across Canada and abroad. There are 70 different civilian job classifications, represented by 10 unions and 18 collective agreements. Further, civilian employees work in diverse environments and follow varying schedules.



For example, financial analysts work in an office building, Monday through Friday, 37.5 hours per week; in another example, ship repair workers work 40 hours per week, have varying shift schedules, and are subject to fluctuating operational requirements and conditions. The result of these multiple elements is hundreds of unique pay rules ranging from membership fee entitlements to dirty work allowances, which are all processed through the Phoenix pay system.

Figure 1. Pay Comparison. This figure compares employees with basic pay and those with more complex pay transactions, based on collective agreements.

In 2016, following the centralization of pay to Miramichi, and parallel

reduction of compensation staff, DND had a capacity of 26 compensation advisors. As a result of the unforeseen pay issue crisis following the implementation of Phoenix, DND had to re-establish its compensation capacity, while concurrently working to improve services and

identify strategies to address systemic issues. By August 2018, the National Civilian Compensation Services (NCCS) team had increased its capacity to 136 staff, to perform various issues resolution, communication and quality assurance activities.

At the beginning of the audit in April 2018, there were 77,539 cases in the Phoenix backlog. As of February 2019, this number had decreased by 31 percent (with 53,773 cases that remain outstanding). The most common types of transactions that make up the backlog are related to Collective Agreements and acting assignments.

1.1.1 Departmental Response

Issues with the Phoenix pay system and its implementation have been well-documented and reported. The Office of the Auditor General (OAG) conducted two engagements to examine Phoenix and its implementation. The Audit of Phoenix Pay Problems,¹ in Fall 2017, found that PSPC did not identify and resolve pay problems in a sustainable way to ensure that public service employees consistently receive their correct pay on time. Departments contributed to the problems; however, PSPC did not provide them with all the information and support to allow them to resolve pay problems to ensure that their employees consistently receive their correct pay on time. The second audit on implementing Phoenix,² in May 2018, focused on whether PSPC effectively and efficiently managed and oversaw the implementation of the new Phoenix pay system, and found that Phoenix has not met user needs, has cost the federal government hundreds of millions of dollars, and has financially affected tens of thousands of its employees. As a result, the Government of Canada, including DND, has developed numerous action plans and initiatives to address these issues and support the thousands of employees affected by pay issues.

In November 2017, the Clerk of the Privy Council requested that all Deputy Heads provide information on actions being taken within their respective departments to help stabilize the pay system and ensure employees are paid properly. To support its employees and in response to this request, DND developed its HR-to-Pay Integrated Action Plan, which focuses on three key pillars: People, Process and Technology.

This action plan includes some 84 initiatives ranging from improving existing compensation training programs to developing IT solutions to collaborating with PSPC on the Pay Pod³ approach implementation.

1.1.2 Roles and Responsibilities

¹ Office of the Auditor General Report - Phoenix Pay Problems http://oag-bvg.gc.ca/internet/English/parl_oag_201711_01_e_42666.html.

² Office of the Auditor General Report – Building and Implementing the Phoenix Pay System http://www.oag-bvg.gc.ca/internet/English/parl_oag_201805_01_e_43033.html.

³ The Pod approach is a PSPC initiative, which groups together compensation advisors and compensation assistants to a specific department or agency. These teams work together to process incoming transactions, while also working through the backlog and addressing outstanding cases in an employee's file. Full roll-out of the Pod approach to DND is scheduled for May 2019.

The centralization of compensation services has led to a fundamental change in pay management and a transfer of pay responsibilities from compensation experts to managers and employees. This shift has caused concern and confusion, as employees and managers have had to take on greater responsibility and ownership of their, and their employees', pay. Within DND, roles and responsibilities related to civilian pay are as follows:

- **Employees** are responsible to inform managers of all pay-related actions and information and to enter pay transactions and leave requests within the identified cut-off periods;
- **Managers** are to ensure employees are aware of their responsibilities, verify employee/manager relationships in Phoenix, approve Section 34 pay transactions within the identified time frames, and track employee pay issues;
- **National Civilian Compensation Services (NCCS)** within Assistant Deputy Minister (Human Resources-Civilian) (ADM(HR-Civ)), leads the DND HR-to-Pay Stabilization efforts and provides assistance and support to DND employees and managers through governance and oversight of pay and compensation services;
- **Financial Controls and Reconciliation (FCR)** within Assistant Deputy Minister (Finance) (ADM(Fin)), manages the preparation, tracking and reporting of overpayments and underpayments resulting from Phoenix pay issues; and
- **L1s**: are accountable for making Phoenix a priority and providing appropriate levels of support and oversight to ensure that employee pay issues are reduced and mitigated.

Corporate stakeholders also have a role to support the management of civilian pay:

- **ADM Information Management (IM)**: is responsible to deliver timely, trusted and secure information capabilities to contribute to the success of the Defence Team; and
- **ADM Public Affairs (PA)**: is to deliver excellence in strategic communications advice, guidance, services and products in support of Government of Canada and Defence priorities.

Within the Government of Canada, PSPC is responsible for administering the pay of public service employees and for operating and maintaining Phoenix and the Pay Centre.

1.2 Rationale

The pay issues resulting from Phoenix are widespread and negatively impact employees and the Department. Pay issues can cause undue stress for employees, managers and the employees charged with resolving these issues. This stress may affect morale and the achievement of operational objectives.

Given these risks, and the importance of the health and well-being of our people as highlighted in Canada's defence policy: *Strong, Secure, Engaged*, this audit was included in the ADM(RS) Risk-based Audit Plan for FYs 2018-2021.

1.3 Objective

The objective of the audit is to provide assurance that departmental pay management practices and processes support:

- Timely payments;
- Timely issue resolution; and
- Proper recording and reporting of inaccurate payments.

1.4 Scope

The scope of the audit included an examination of Compensation and Finance data and reports and activities pertaining to Departmental initiatives to support civilian pay management. While there is a relationship between compensation and staffing, as well as with information systems, the focus of this audit was on compensation-led action items within the HR-to-Pay Stabilization action plan.

The audit excluded an examination of PSPC and the Pay Centre's role in pay issues or the relationship between the Pay Centre and the NCCS group. The Phoenix pay system and its capabilities, implementation and effectiveness were not examined nor was accuracy of payments to employees generated by Phoenix, as these areas have been covered by recent OAG engagements and are included in yearly Public Accounts audits.

Additionally, existing IT implementation challenges in trying to put IT solutions in place, as well as departmental technology were deemed outside the scope of this audit.

The audit work was performed during the period of May 2018 to March 2019, and included civilian compensation data and documentation from February 2016 to February 2019.

1.5 Methodology

The audit results are based on evidence from the following sources:

- Compensation documentation and examination of timeliness reports and initiatives, training programs, internal Compensation communications, NCCS organizational charts, program summaries and proposed initiatives;
- Financial reporting documentation and processes related to the tracking and reporting of overpayments and underpayments;
- Interviews with key Canadian Army, Royal Canadian Navy, Royal Canadian Air Force, ADM(HR-Civ), ADM(Fin) and DND staff regarding their roles, responsibilities and accountabilities in the compensation process; and
- Site visits to Canadian Forces Base (CFB) Halifax, 12 Wing Shearwater and 14 Wing Greenwood.

The audit team would like to express their sincere appreciation to all the employees, including the compensation team, who shared their pay issues and experiences through interviews in support of this audit work.

1.6 Audit Criteria

- Data entry into Human Resource Management System (HRMS), to be fed into Phoenix, is timely.
- Regional and national communications have been developed and are managed to support employees with pay issues.
- Financial recoveries are managed to ensure sound stewardship.
- DND is able to staff and retain compensation staff.

The assessment against the audit criteria can be found at [Annex B](#).

1.7 Statement of Conformance

The audit findings and conclusions contained in this report are based on sufficient and appropriate audit evidence gathered in accordance with procedures that meet the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. The audit thus conforms to the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* as supported by the results of the quality assurance and improvement program. The opinions expressed in this report are based on conditions as they existed at the time of the audit, and apply only to the entity examined.

2.0 Findings and Recommendations

2.1 Capacity and Training

NCCS does not have the capacity to respond to the current workload requirements; further, departmental training does not always meet manager or employee needs.

We expected to find:

- NCCS is managing recruitment, retention and turnover to ensure they can respond to the compensation needs of the Department; and
 - Compensation training for compensation staff and DND employees is being offered, completed, and is user-friendly.
-

2.1.1 NCCS Team

To effectively respond to employee pay issues, the Department has committed to increase its compensation capacity. At the time of the audit, NCCS was comprised of two sections: Compensation Services and HR-to-Pay Stabilization. The former interacts directly with employees and assists in solving pay issues. There are 158 positions within Compensation Services across three teams: the Contact team; the Consultation team; and the Resolution team.

The HR-to-Pay Stabilization section looks at systemic issues regarding pay issues to help employees, managers and the Compensation Services section. This section includes 68 positions across four teams: Governance; Quality Assurance; Business Improvement; and Integration. As of August 2018, 136 positions were staffed (61 percent).

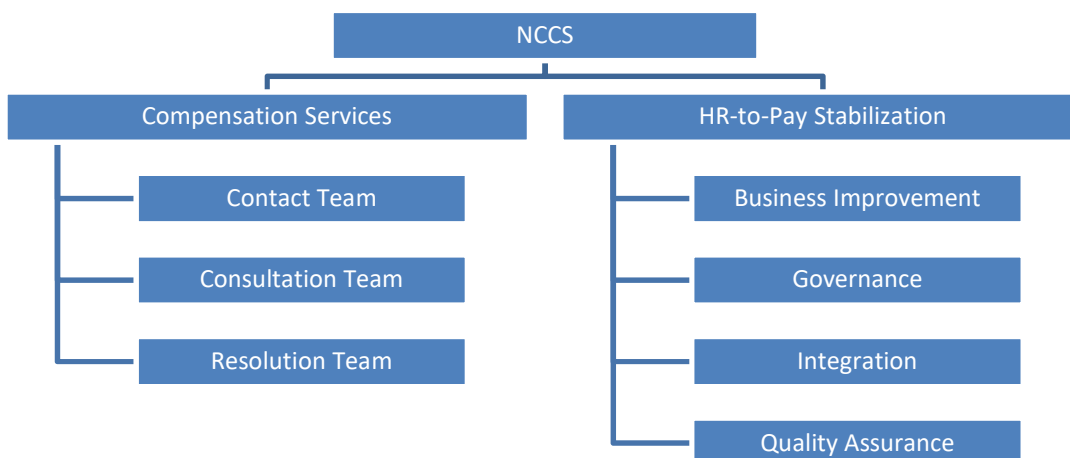


Figure 2. Organizational Structure of NCCS. This chart shows the organizational structure and design of the compensation team (NCCS) at the time of the audit.

The current workload facing the NCCS team is immense, as each pay period contains tens of thousands of pay transactions and thousands of approvals, in addition to the backlog of unresolved issues. To manage this workload, employees are authorized to work up to 10 hours of overtime per week. The overtime report for February 2019 indicates overtime was recorded for 24 of 56 employees. Of those 24 employees, 15 worked 511 hours for an average of 34.1 hours of overtime per month. These 15 employees were predominately those with supervisory responsibilities in the compensation services group. The on-going use of overtime is not sustainable, and poses several risks to the organization including decreased employee well-being, work quality, productivity and turnover. Without adequate capacity, NCCS will not be able to provide the required level of support to L1s to meet the needs of the department.

During the audit, some turnover at the staff and management level was noted and attributed to fatigue from changing priorities; resourcing constraints; and finding similar positions within other government departments with lighter workloads.

2.1.2 Training and guidance

NCCS staff receive standard training, developed by PSPC, on specific compensation-related job functions and systems (depending on the role) before beginning their work. They are then trained through job shadowing and on-the-job training, which, as indicated through interviews, can take up to two years for a compensation advisor to become a subject matter expert. Staff reported they receive adequate training to perform their compensation-related duties. Given the customer service nature of these positions, and the stress and sensitivity associated with pay issues, consideration should be given to provide NCCS with specialized training to deal with difficult situations and stress management.

As previously noted, the centralization of compensation services has shifted pay responsibilities to the employees and managers. To support this transition, NCCS conducted a department-wide on-line training campaign to deliver the HR-to-Pay Stabilization Training. This mandatory training was developed by the Office of the Chief Human Resources Officer⁴ and the Canada School of Public Service. While the campaign was successful in that it achieved its completion rate goal of over 90 percent, the majority of employees and managers interviewed indicated that the training was not sufficient to support them in the performance of their pay-related accountabilities. Interviews also revealed that managers and employees remain unsure of their responsibilities and accountabilities and require additional, user-friendly guidance and direction. This guidance is especially important for those managers and employees who have varying schedules and complicated pay rules and entitlements, such as firefighters and ship repair workers.

In the absence of clear guidance, some managers are developing ad hoc strategies to perform these duties, such as using incorrect entitlement and allowance codes to enter employee pay.

⁴ This is a sector within the Treasury Board of Canada Secretariat.

These ad hoc approaches increase the risk of pay errors and could impact information used for planning exercises and decision making.

NCCS has reported that they are developing a compensation guide, which should provide employees and managers with the information they need to perform their pay-related duties.

2.1.3 Workplace Well-Being

Phoenix pay issues vary in degree of severity, causing worry and stress which impact the morale and well-being for both NCCS employees and affected employees. As of February 2019, 61 percent of civilian employees had pay issues. DND and NCCS have taken measures to support employees with pay issues and to promote work-place well-being. Almost all employees interviewed were aware of the Employee Assistance Program, which provides support to civilian employees and their immediate family members when dealing with personal or professional issues that are affecting their personal well-being. NCCS has implemented its C.A.R.E. Program (Clarity, Assistance, Recognition, Elevation) to help improve the work environment and mental health of compensation employees. This program includes both formal and informal activities. One such example is the Appreciation Board, which highlights positive issue resolutions and messages of thanks received from clients.



Figure 3. NCCS C.A.R.E. Program - Appreciation Board. This images displays notes of appreciation from clients.

Although efforts have been made to improve workplace well-being within NCCS, some employees have been hesitant to participate in C.A.R.E program events and other activities, such as training, due to their workload. Event participation should be actively encouraged by leadership to ensure the success of this important initiative.

2.1.4 Conclusion

NCCS is responsible for responding to and resolving thousands of pay issues and pay-related enquiries. The professionalization of the compensation function, through training, talent management and career planning, will enable NCCS to continue to enhance its capacity to respond to pay-related issues and enquiries. Enhanced guidance will support the employees and managers, execute their new pay-related accountabilities and help the Department reduce the number of new pay issues being generated.

ADM(RS) Recommendation

1. ADM(HR-Civ) should develop an approach to professionalize and stabilize compensation personnel, which should include:

- resourcing options/strategies to address both the current capacity issues, including the use of overtime, and the long-term needs of the Department;
- succession planning strategies; and
- training needs analysis, including support for conflict resolution and mental health.

OPI: ADM(HR-Civ), NCCS Unit

ADM(RS) Recommendation

2. To support employees and managers in better understanding and performing their roles and responsibilities with respect to pay transactions, ADM(HR-Civ) should create a comprehensive guide which includes:

- clarity on the requirements for general processing and timeliness;
- customized instructions for specific classifications that have more complex processing requirements, such as ship workers, firefighters, etc.; and
- step-by-step instructions on how to process recurring pay activities with higher rates of error and delay, such as employee acting periods, overtime and life events, such as maternity leave.

OPI: ADM(HR-Civ), NCCS Unit

2.2 Communication

While the Department routinely communicates compensation-related information to employees and managers, there is no formal, department-wide communication strategy in place to support employees and former employees experiencing pay issues.

We expected to find:

- Regional/national communications in place to support employees with pay issues.
-
-

2.2.1 Communications Initiatives

NCCS provides frequent, ongoing communications on pay issues, in a variety of formats, to employees and managers of the Department. Some examples include the Civilian HR Matters newsletter, Defence Team News bulletins, information sessions and town halls. A dedicated

communications team and intranet page are in place to provide employees and managers with access to relevant and important information.

According to interviews, these communications have not been fully effective at supporting employees with their pay issues. L1 audit survey results indicate that communications offered by NCCS are generic and do not provide specific information that meets employee needs. While a review of L1 intranet sites found that approximately half contained prominent and relevant Phoenix information readily available on their home pages; of those, most only provided links to NCCS or PSPC information.

As part of the 2018 Public Service Employee Survey (PSES), employees were asked if they were 'satisfied with the support received from [their] department or agency to help resolve pay or other compensation issues.' Results for DND indicate that employees were generally not satisfied with the support received from the Department (refer to [Annex C](#) for further information on PSES pay-related results). This sentiment was mirrored in interview results. When managers and employees were asked what would most help them deal with pay issues, the overwhelming response was on-site support from a compensation advisor.

NCCS has made several advances to improve communications within the Department. For example, in October 2018, NCCS hired an Engagement and Governance Manager to lead a newly established communications team and develop and implement a national communication strategy.

The HR-to-Pay Stabilization Committee was established to provide the opportunity for NCCS to work with L1 organizations to determine information needs, discuss emerging issues and share good practices amongst organizations. While this committee's membership includes 10 L1s, consideration could be given to the sharing of notable practices and other information with all L1s.

Additional communications support has also been made available with the implementation of the Human Resources Support System (HRSS) in October 2018. This system provides employees and managers with a centralized approach to requesting assistance with pay issues. Feedback received during site visits about the HRSS was generally positive, though it was noted the on-line system could only be accessed within the Department; a toll-free number allows employees without computers to access the system.

Lastly, subsequent to the audit, NCCS reported that a strategy to embed additional compensation resources on-site at various locations across the Department was under development. This strategy would help employees and managers deal with pay issues, as well as understand and apply their new pay-related responsibilities and accountabilities.

Noteworthy Practice

Assistant Deputy Minister (Materiel) (ADM(Mat)) has a dedicated page on the intranet to provide its staff with pay issue related information including:

- Phoenix Tiger Team divisional Offices of Primary Interest (OPI) and contact information;
- instructional video on how to approve Section 34 pay transactions; and
- priority issues and the escalation process.

2.2.2 Former and Inactive Employees

As of June 2018, 30 percent of individuals with pay issues were inactive employees, which includes former employees. Former and inactive employees, such as retirees and casuals, are not able to access DND information or services as they cannot access their DND email, leave system or the HRSS. It was reported that often a former employee's only recourse is to rely on contacts within the Department to act as liaisons to assist with resolving pay issues. As such, there is a risk the Department may not be fully aware of the impact of Phoenix pay issues on former and inactive employees. This may create issues related to the monitoring of over and underpayments, which are discussed in section 2.3.1.

2.2.3 Conclusion

While there are frequent internal communications regarding employee pay issues, these communications do not always address employee needs. In addition, coordinated communications between NCCS and the L1s in developing and providing communications to support employees could be improved.

A national communications strategy that provides DND and job-specific information to targeted audiences will ensure civilian employees are properly informed of the resources and services available to them, and that managers have the information they need to support timely approvals and decision making.

ADM(RS) Recommendation

3. To better support employees with pay issues, including those who are inactive or retired, ADM(HR-Civ), in collaboration with Assistant Deputy Minister (Public Affairs) (ADM(PA)), should develop and implement a national communications and outreach strategy, in consultation with L1s, which should be based on user needs and targeted to specific audiences (e.g., issue specific).

OPI: ADM(HR-Civ), NCCS Unit

OCI: ADM(PA)

2.3 Timeliness

The majority of pay transactions are not submitted or approved in a timely manner, which increases the number of pay-related issues within DND.

We expected to find:

- Timely entry and approval of Section 34 pay transactions into Phoenix; and
 - Controls in place to ensure timely approval of pay transactions.
-
-

Within Phoenix, basic bi-weekly pay is approved automatically and does not require employees or managers to manually input or approve transactions in the system. For pay transactions beyond basic pay, such as overtime, employees are responsible for entering their time and managers are responsible for the Section 34 approval of these entries. The implementation of Phoenix has resulted in the roles and responsibilities that used to belong to compensation advisors now being in the hands of employees and managers. This is an organizational and cultural change that has not been fully accepted within the Department. In order to improve timeliness and mitigate pay issues, L1s, employees and managers must accept and take accountability for these critical responsibilities related to pay. NCCS has the role of functional oversight and guidance for compensation and timeliness.

2.3.1 Timely Entry of Pay Transactions

As Phoenix has fixed deadlines within each pay period, the timely entry and approval of pay transactions is critical. A pay transaction is considered timely if it is entered into Phoenix before the effective date, the date on which the action is to take effect. For example, Figure 4 depicts the timeframe to ensure timely entry and approval for an employee who worked overtime on the 11th of the month. The overtime entry is considered timely up until the 11th, and is deemed untimely after this date. While there is a Phoenix expectation that overtime be approved and entered into the system in advance, this may not be feasible for various occupational groups given the nature of operational requirements.

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
3	4	5	6	7	8	9
				Pay Period	→	
10	11	12	13	14	15	16
	Pay Period (Continued)		→			
	Effective Date					
17	18	19	20	21	22	23
	Pay Period (Continued)			→		
24	25	26	27	28	29	30
Pay Entry Cutoff Date	Manager Approval Cutoff Date					
31	1	2	3	4	5	6
			Pay Date (For March 7-20 Pay Period)			

Figure 4. Section 34 Timeliness Schedule. This calendar shows cutoff dates for timely entry and Section 34 approval for civilian employees.

As of December 2018, internal reporting shows:

- 24 percent of pay transactions are submitted prior to the effective date (timely);
- 8 percent of transactions are received after the effective date but before the pay cut off date; and
- 68 percent of pay transactions are submitted after the pay cut off date.

If transactions such as overtime, allowances and acting are not entered by employees in a timely manner, the risk of impact to employee pay increases. Timely pay entries by employees and the subsequent timely approval by managers reduces the possibility of delays, limits the need for manual interventions and mitigates pay issues that could require escalation, adding to the backlog of unresolved cases.

2.3.2 Timely Approval of Pay Transactions

Within DND, the volume of pay transactions approved each pay period is significant. In December 2018, approximately 36,000 pay transactions were approved. Conversely, during this same month, there were 26,459 outstanding transactions awaiting approval, 19,679 of which were greater than 30 days old and were, in some cases, years old.

There are several causes for these untimely approvals, which include, but are not limited to:

- employees who do not have the correct Section 34 manager assigned in Phoenix;
- managers who are hesitant to approve entries which may impact their employee's pay or because multiple transactions must be solved concurrently (for example, approving acting before approving overtime, so overtime is paid at the correct acting rate of pay); and
- DND operations, which require employees to work on short notice, unusual hours or without access to Phoenix.

While employees and managers have little to no control of DND operational context, it is their responsibility to understand and perform their roles and responsibilities with regard to the pay system and its deadlines, as outlined in the first two examples.

NCCS posts L1 timeliness dashboards for HR Transactions and outstanding Section 34 approvals on a monthly basis. Subsequent to the audit conduct phase, it was reported that L1s will be developing action plans to address the issue of timeliness within their respective organizations. Additional monitoring activities will be discussed in section 2.4.

Noteworthy Practice

At CFB Halifax, the fire department holds monthly town halls to discuss pay issues, including timeliness. Presentations on Phoenix have been customized to support the complexities of the firefighter classification.

2.3.3 Conclusion

Compensation transactions require a multi-layered entry and approval process involving several stakeholders. Greater collaboration between employees, managers, NCCS and L1s is required to improve the timeliness of these transactions. The understanding of roles and responsibilities is key to mitigating employee pay issues.

ADM(RS) Recommendation

4. To improve the timely approval of pay transactions, ADM(HR-Civ) should continue to augment oversight through Section 34 monitoring and reporting to L1s. As L1s remain accountable for this fundamental responsibility, progress reports and L1 action plans to address timeliness should be presented, as required, to the Defence Team Human Resources Committee, as a standing agenda item.

OPI: ADM(HR-Civ), NCCS Unit

OCI: L1 Organizations

2.4 Monitoring

Monitoring activities are in place to support the tracking and reporting of overpayments and underpayments; additional controls are needed to improve the quality of compensation data.

We expected to find:

- Overpayments and underpayments are managed to ensure sound stewardship; and
- Data analysis is used to support initiatives and decision making.

2.4.1 Overpayments and Underpayments

Within ADM(FIN)/CFO, the FCR group is responsible for monitoring overpayments and underpayments. On a quarterly basis, FCR requests financial information from the L1s, via a template with instructions for completion. The process for gathering this information varies between L1s, as managers track and report over/underpayments using various methods and tools, such as the Salary Forecasting Tool (SFT), black books, Defence Resource Management Information System, HRMS, or a combination of these sources. L1s return the completed templates to the FCR group, where the data is compiled and submitted to the Office of the Comptroller General.

Salary Forecasting Tool (SFT) is a customized application that allows management to forecast and assign employee salary dollars to their operational budgets.

FCR has documented deficiencies in the information received from L1s, such as: limited to no quality assurance prior to submission; little explanation for reporting variances from the previous reporting period; and incomplete data. In addition, a number of L1s were late with their submission, or were required to resubmit, given their deficiencies. For example, in the first quarter of FY 2018/2019, 27 percent were submitted late and 38 percent required resubmission.

Survey and interview responses revealed that there was a lack of comfort with using the SFT; others questioned the validity and currency of the data in the application. The inconsistent use of the SFT could affect the accuracy of over/underpayment data used for reporting purposes. There were also multiple instances where this has led to budgeted salary wage envelope implications with potential impacts on operations.

2.4.2 Compensation Information for Decision Making

In addition to the Section 34 monitoring reports and activities previously reported in section 2.3.2, NCCS presents timeliness dashboards to the Defence Team Human Resources Committee and other governance bodies, as required.

NCCS has a quality assurance (QA) program in place to verify data integrity, through supervisor approvals, peer-to-peer discussion and the reconciliation of HRMS/Phoenix data. NCCS currently performs these QA functions on 300 transactions per quarter, selected on a risk-based approach. Given the thousands of transactions per pay period, this level of sampling cannot provide NCCS with sufficient information to provide assurance that compensation work is being done correctly and efficiently. The current QA program is currently being assessed, in conjunction with ADM(Fin), to determine what enhancements are required. Greater monitoring and data analysis will enable NCCS to more readily detect systemic issues and to develop work plans to mitigate these issues. This analysis could further alleviate work load pressures by allowing work to be prioritized in a more efficient and proactive nature.

2.4.3 Conclusion

While FCR is tracking and reporting overpayments and underpayments, additional controls are required to ensure data collected across L1s is consistent and accurate. Establishing detailed SFT guidance and training will promote the consistent use of the application across the Department.

NCCS has limited QA and data analysis to ensure accuracy of data and to identify trends in compensation issues. Enhancing QA and data analytics will promote the accuracy of data and enable better trend analysis to focus resources on areas requiring improvement.

ADM(RS) Recommendation

5. ADM(Fin) should enhance the overpayment and underpayment reporting process by updating procedure/guidance and tools for L1 reporting information, and specifically for the Salary Forecasting Tool. Enhancements should include:

- Updated guidance to define SFT procedures and user roles and responsibilities;
- Increased training for SFT users; and
- Monitoring to ensure quarterly reports are submitted in a timely manner.

OPI: ADM(Fin)

ADM(RS) Recommendation

6. ADM(HR-Civ) should review its QA program, in collaboration with ADM(Fin), to determine transaction sampling methodology needed to provide adequate oversight. ADM(HR-Civ) should develop its data analytics capabilities to enable better trend analysis (i.e., identification of areas requiring attention).

OPI: ADM(HR-Civ), NCCS Unit

OPI: ADM(Fin)

3.0 General Conclusion

The implementation of Phoenix has resulted in a significant organizational and cultural change with HR being the functional authority and compensation responsibilities and accountabilities now residing with L1s, employees and managers. While DND has implemented numerous initiatives to support employees and reduce pay issues, the challenges surrounding compensation are expected to continue for the foreseeable future. NCCS has made progress in the areas of reducing the number of pay issues and increasing the capacity of the compensation team. With increased recognition of L1 accountability, additional progress can be made in the areas of timeliness, communication and monitoring.

While ADM(HR-Civ) is rebuilding capacity within the compensation team, the current compensation staffing complement is unable to support the current demands and workload. A formal approach to professionalize and stabilize compensation capacity is needed to support the on-going and long-term needs of the Department. In addition, enhanced data quality assurance, analytics and trend analysis will support effective work planning, the identification of systemic issues and the efficient use of resources to target issue areas requiring attention.

The nature and variety of DND's civilian workforce, which includes a diverse range of classifications and collective agreements, adds significant complexity to pay transactions. A comprehensive guide, that is specific to employee and manager needs, and clearly details employee and manager roles and responsibilities, will help support the timely execution of pay transactions. Furthermore, issue specific and targeted communications will allow the Department to reach affected employees, including those who have retired or work in remote locations.

Finally, the tracking and reporting of overpayments and underpayments is occurring. Additional controls would help to ensure pay-related data is complete and collected consistently across L1s to inform decision making.

The Department has made the well-being of its employees, including the resolution of Phoenix pay issues one of its top priorities. It has developed numerous action plans to address these issues and support the thousands of employees affected by pay issues. The implementation of the recommendations in this report will further strengthen the Department's ability to respond to employee pay issues in a timely and effective manner.

Annex A—Management Action Plan

ADM(RS) uses recommendation significance criteria as follows:

Very High—Controls are not in place. Important issues have been identified and will have a significant negative impact on operations.

High—Controls are inadequate. Important issues are identified that could negatively impact the achievement of program/operational objectives.

Moderate—Controls are in place but are not being sufficiently complied with. Issues are identified that could negatively impact the efficiency and effectiveness of operations.

Low—Controls are in place but the level of compliance varies.

Very Low—Controls are in place with no level of variance.

Capacity

ADM(RS) Recommendation – Moderate

1. ADM(HR-Civ) should develop an approach to professionalize and stabilize compensation personnel, which should include:

- resourcing options/strategies to address both the current capacity issues and the long-term needs of the Department;
- succession planning strategies; and
- training needs analysis, including support for conflict resolution and mental health.

OPI: ADM(HR-Civ), NCCS Unit

Management Action

Agreed.

1.1 ADM(HR-Civ) to develop an HR community management strategy to enhance and professionalize the compensation group, complemented with formalized learning, targeted training and talent management activities.

OPI: ADM(HR-Civ), NCCS Unit

Target Date: March 2020

1.2 Additional funding secured and a phased staffing plan has been initiated to increase compensation capacity nationally and provide managers and employees with additional support on Bases and Wings.

OPI: ADM(HR-Civ), NCCS Unit

Target Date: December 2019

ADM(RS) Recommendation – Moderate

2. To support employees and managers in better understanding and performing their roles and responsibilities with respect to pay transactions, ADM(HR-Civ) should create a comprehensive guide which includes:

- clarity on the requirements for general processing and timeliness;
- customized instructions for specific classifications that have more complex processing requirements, such as ship workers, firefighters, etc.; and
- step-by-step instructions on how to process recurring pay activities with higher rates of error and delay, such as employee acting periods, overtime and life events, such as maternity leave.

OPI: ADM(HR-Civ), NCCS Unit

Management Action

Agreed. Targeted communications and supporting material will continue to be developed and shared with managers and employees to better understand the impact and their responsibilities. Material will be aligned with Treasury Board Secretariat and PSPC guidance and products.

ADM(HR-Civ) has produced numerous tools, communications and resources in order to support managers and employees in executing correct and timely pay and HR transactions, including those 11 Corporate Commitments as identified by Treasury Board Secretariat for Management Accountability Framework reporting requirements.

2.1.1 Timeliness tools created and shared with the Defence team, clearly identifying employee and manager roles and responsibilities with respect to timeliness, as well as the appropriate resources to support positive pay outcomes.

OPI: ADM(HR-Civ), NCCS Unit

Target Date: Completed April 2019

2.1.2 Additionally, the HR Go App will provide easily accessible compensation to managers with the click of an icon. These and other service offerings support the Department's efforts in enhancing accurate and timely pay outcomes, and are dependent on enabling capacity within ADM(HR-Civ) as well as the provision of technology and system support from key players such as Assistant Deputy Minister (Information Management) (ADM(IM)).

OPI: ADM(HR-Civ), NCCS Unit

Target Date: June 2019

2.2.1 In collaboration with the PSPC Pay Pod, ADM(HR-Civ) will develop tailored strategies to address specific classifications groups (e.g., Firefighters, Heating, Power and Stationary Plant Operations) which require manual intervention and/or advanced planning to avoid pay errors.

OPI: ADM(HR-Civ), NCCS Unit

Target Date: September 2019

2.2.2 Tailored guides, instructions and communications will continue to be developed and shared with the firefighter community. ADM(HR-Civ) will continue to engage management on firefighter-related issues and in collaboration with PSPC, tailored pay processing practices will continue until a Phoenix solution is found.

OPI: ADM(HR-Civ), NCCS Unit

Target Date: September 2019

2.2.3 Tailored instructions, communications and any required pay process changes will be developed for the Heating, Power and Stationary Plant Operations community due to their complex processing requirements.

OPI: ADM(HR-Civ), NCCS Unit

Target Date: December 2019

2.3 The help lines, HRSS, increased support on bases/wings and the ability to remote access clients' computers will help managers and employees to address recurring pay issues and life events in real time.

OPI: ADM(HR-Civ), NCCS Unit

Target Date: September 2019

Communication

ADM(RS) Recommendation – Moderate

3. To better support employees with pay issues, ADM(HR-Civ), in collaboration with ADM(PA), should develop and implement a national communications and outreach strategy, in consultation with L1s, which should be based on user needs and targeted to specific audiences (e.g., issue specific).

OPI: ADM(HR-Civ), NCCS Unit

OCI: ADM(PA)

Management Action

Agreed. Strong collaboration with ADM(PA) will remain a priority for the effective communication of materials, resources, tools and training, as well as working with ADM(IM) and Director General Workforce Development to ensure effective online materials and portals to support learning and educational platforms.

3.1 In collaboration with ADM(PA), develop and implement a National Communication Strategy to include use of different mediums (e.g., kiosks, TV messaging, direct emails) to ensure messaging gets to those who are hard to reach across all L1s.

OPI: ADM(HR-Civ), NCCS Unit

Target Date: September 2019

3.2 In collaboration with ADM(PA), a National Communication Strategy will be developed to influence improved pay outcome (e.g., timeliness of Section 34 and HR Transactions, mandatory Phoenix training) is regularly communicated across all L1s.

OPI: ADM(HR-Civ), NCCS Unit

Target Date: September 2019

Timeliness

ADM(RS) Recommendation – High

4. To improve the timely approval of pay transactions, ADM(HR-Civ) should continue to augment oversight through Section 34 monitoring and reporting to L1s. As L1s remain accountable for this fundamental responsibility, progress reports and L1 action plans to address timeliness should be presented, as required, to the Defence Team Human Resources Committee, as a standing agenda item.

OPI: ADM(HR-Civ), NCCS Unit

OCI: L1 Organizations

Management Action

Agreed. In addition to the on-going monitoring occurring, ADM(HR Civ) will:

4.1 Provide cyclical updates on L0/L1 timeliness progress at the Defence Team Human Resources Committee.

OPI: ADM(HR-Civ), NCCS Unit

Target Date: Completed November 2018

4.2 Provide monthly Section 34 and HR Transactions Timeliness Reports to L1s.

OPI: ADM(HR-Civ), NCCS Unit

Target Date: Completed January 2019

4.3 Measure timeliness on 11 Corporate Commitments through Executives' performance management agreements.

OPI: ADM(HR-Civ), NCCS Unit

Target Date: October 2019

Monitoring

ADM(RS) Recommendation – Moderate

5. ADM(Fin) should enhance the overpayment and underpayment reporting process by updating procedure/guidance and tools for L1 reporting information, and specifically for the Salary Forecasting Tool. Enhancements should include:

- Updated guidance to define SFT procedures and user roles and responsibilities;
- Increased training for SFT users; and
- Monitoring to ensure quarterly reports are submitted in a timely manner.

OPI: ADM(Fin)

Management Action

5.1 ADM(Fin) agrees with the recommendation and will improve salary reconciliation and reporting of Phoenix overpayments and underpayments by providing end-users with the tools and training needed to accurately and effectively plan, forecast, maintain, reconcile and report on salary expenditures and Phoenix pay issues.

In support of this objective and the Deputy Minister's direction for the mandatory use of SFT, ADM(Fin) has launched the Salary Management Strengthening Initiative to improve civilian salary management and increase SFT adoption and proficiency. To ensure over and under reporting, salary data integrity and accuracy, ADM(Fin) will engage Comptrollers, Budget Managers and SFT Coordinators at all levels of the organization in FY 2019/20 to: identify best practices and efficiency opportunities; standardize salary management business processes; and develop system enhancements, reference guides and training materials for the financial community.

Following the conclusion of stakeholder engagement in March 2020, ADM(Fin) will deliver a draft Salary Management procedural guide by March 2020 and the final guide completed by June 2020 with clear roles and responsibilities for individuals involved in the salary management process, as well an updated SFT Reference Guide with detailed Defence Resource

Management Information System instructions. This timeline is required to engage with the group of seven L1s to ensure that their pain points are addressed and strategies incorporated into the guide. By December 2019, ADM(Fin) will develop and deliver on-site, on-demand SFT training for business units that can be delivered virtually, remotely and locally.

OPI: ADM(Fin)

Target Date: June 2020

ADM(RS) Recommendation – Moderate

6. ADM(HR-Civ) should review its QA program, in collaboration with ADM(Fin), to determine transaction sampling methodology needed to provide adequate oversight. ADM(HR-Civ) should develop its data analytics capabilities to enable better trend analysis (i.e., identification of areas requiring attention).

OPI: ADM(HR-Civ), NCCS

OCI: ADM(Fin)

Management Action

Agreed.

6.1 The QA program will implement different strategies and software options to provide increased data sampling and to identify critical areas requiring attention.

OPI: ADM(HR-Civ), NCCS Unit

Target Date: September 2019

6.2 In collaboration with ADM(Fin), revise the QA program, its methodology and results to align with ADM(Fin) observations.

OPI: ADM(HR-Civ), NCCS Unit

Target Date: September 2019

Annex B—Audit Criteria

Criteria Assessment

The audit criteria were assessed using the following levels:

Assessment Level and Description

Level 1—Satisfactory

Level 2—Needs Minor Improvement

Level 3—Needs Moderate Improvement

Level 4—Needs Significant Improvement

Level 5—Unsatisfactory

Timeliness

1. Section 34 pay transactions were entered and approved into Phoenix on a timely basis. Controls are in place to ensure timely approval of pay actions.

Assessment Level [Level 5] – Although some L1s are implementing strategies to improve the timeliness of pay transactions, the majority of pay transactions are not entered or approved in a timely manner, thus increasing the number of pay issues within DND.

Communication

2. Regional or national communication strategies are in place to support employees with pay issues.

Assessment Level [Level 3] – Ongoing communications are sent to DND employees regionally via a variety of formats, but no formal, national compensation communication strategy exists to adequately support employees and former employees with pay issues.

Monitoring

3. Overpayments and underpayments are managed to ensure sound stewardship. Data analysis is used to support initiatives and decision making.

Assessment Level [Level 3] – Although tracking and reporting of overpayments and underpayments is supported through monitoring activities, expanded controls, data analysis and quality assurance are required to improve data quality.

Capacity

4. NCCS is ensuring that they can respond to compensation needs of the Department through recruitment, retention and turnover management. Compensation training is offered to, completed by, understood by and useful to Compensation staff and DND employees.

Assessment Level [Level 4] – NCCS does not have the capacity to respond to their current workload. Departmental compensation training is offered but does not meet the needs of all managers or employees.

Sources of Criteria

Timeliness:

- Reference to: Committee of Sponsoring Organizations of the Treadway Commission (COSO), Internal Control – Integrated Framework, March 2013
- Reference to: Management Accountability Framework

Communication:

- Reference to: Committee of Sponsoring Organizations of the Treadway Commission (COSO), Internal Control – Integrated Framework, March 2013
- Reference to: Management Accountability Framework

Monitoring:

- Reference to: Committee of Sponsoring Organizations of the Treadway Commission (COSO), Internal Control – Integrated Framework, March 2013
- Reference to: Management Accountability Framework

Capacity:

- Reference to: Committee of Sponsoring Organizations of the Treadway Commission (COSO), Internal Control – Integrated Framework, March 2013
- Reference to: Management Accountability Framework

Annex C—2018 PSES Compensation Question Results

Question 67. To what extent has your pay or other compensation been affected by issues with the Phoenix pay system?											
Survey year	Organization	Not at all	To a small extent	To a moderate extent	To a large extent	To a very large extent	Don't know	Not applicable	Positive answers	Negative answers	Total responses
		(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	
2018	Public Service	29	26	20	11	11	2	1	30	70	161,576
2018	Department of National Defence	24	25	22	13	14	1	0	25	75	10,594
Question 69. Please estimate the number of hours you have spent, at work or outside of work, attempting to resolve your pay or other compensation issue(s).											
Survey year	Organization	0 hours	1 to 9 hours	10 to 19 hours	20 to 29 hours	30 to 39 hours	40 hours or more	Total responses			
		(%)	(%)	(%)	(%)	(%)	(%)				
2018	Public Service	6	41	19	11	5	19	104,045			
2018	Department of National Defence	5	35	18	12	5	26	7,401			
Question 71. I am satisfied with the support (e.g., regular information, follow-up, making enquiries on my behalf, offering emergency or priority pay) I received from my department or agency to help resolve my pay or other compensation issues.											
Survey year	Organization	Strongly agree	Somewhat agree	Neither agree nor disagree	Somewhat disagree	Strongly disagree	Don't know	Not applicable	Positive answers	Negative answers	Total responses
		(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	
2018	Public Service	11	22	18	18	23	2	6	36	44	108,900
2018	Department of National Defence	11	22	19	18	24	1	5	35	44	7,654

Question 72. I am satisfied with the support I received from the Pay Centre to help resolve my pay or other compensation issues.											
Survey year	Organization	Strongly agree	Somewhat agree	Neither agree nor disagree	Somewhat disagree	Strongly disagree	Don't know	Not applicable	Positive answers	Negative answers	Total responses
		(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	
2018	Public Service	5	13	16	19	39	2	7	19	63	108,928
2018	Department of National Defence	4	12	17	19	43	2	4	17	66	7,655
Question 73. To what extent have issues with the Phoenix pay system affected your decision to seek or accept another position (e.g., deployment, promotion, secondment, assignment, acting assignment) within your organization or the federal public service?											
Survey year	Organization	Not at all	To a small extent	To a moderate extent	To a large extent	To a very large extent	Don't know	Not applicable	Positive answers	Negative answers	Total responses
		(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	
2018	Public Service	42	16	13	9	11	1	8	63	22	161,026
2018	Department of National Defence	40	15	14	10	13	1	7	60	25	10,528

Table C- 1. Results of PSES Questions. This table shows the results for the 2019 Public Service Employee Survey for questions regarding compensation.

Annex D—Pay Rule Examples

Classification	Collective Agreement	Pay/Allowance	Notes
FI	Financial Management	Basic Pay	
FI	Financial Management	Overtime	
FI	Financial Management	Professional Allowance	Employee will receive, upon proof of payment, reimbursement of annual membership fees paid to a professional designation.
SC	Operational Services	Basic Pay	
SC	Operational Services	Overtime	
SC	Operational Services	Dirty Work Allowance	Clean or work in bilges and spaces below the bottom floor plates for periods in excess of 15 minutes. Clean boiler tubes or repair and maintain ships' sewage disposal tanks. Come in physical contact with the pollutant while cleaning up oil spills in excess of 200 litres. Repair or maintain the ships' grey water system and valves provided the employee is required to come in direct contact with grey water.
SC	Operational Services	Diving Duty Allowance	Performing underwater work with the aid of a self-contained air supply.
SC	Operational Services	Fisheries Enforcement Allowance	Payable for each month that the employee maintains certification and is assigned to a sea going position where the employee may be required by the Employer to participate in enforcement duties.
SC	Operational Services	Meals and Quarters	Vessel away from Home port where Meals and/or Quarters are normally provided, but not available or not provided. Actual costs incurred for meals and/or lodging
SC	Operational Services	Security Duty	This is a non-automated entitlement that is reported in the same manner as Overtime for 3/10 of the straight time hourly rate
SC	Operational Services	Trade Certification Fees	This is a non-automated entitlement that is paid out manually by a Compensation Advisor for registration, licensing or certification fees.

Table D-1. Pay Rule Examples. This table shows a more detailed breakdown of Figure 1.