Audit of Compensation Processes and Controls

Canada Border Services Agency

April 2022

PROTECTION · SERVICE · INTEGRITY

Table of contents

1.0   Introduction

1. The Canada Border Services Agency (CBSA or Agency) employs over 16,000 staff, including indeterminate and determinate employees, that account for $1.7 billion in annual payroll expense. Compensation refers to cash and non-cash remuneration and includes wages, salaries, pension benefits, paid time off and allowances. In order to remain compliant with federal regulations, policies and collective agreements, employees must be accurately compensated in a timely manner. Failure to do so may result in loss of trust between employees and the Agency, challenges with the retention of qualified personnel and may ultimately affect the ability to meet our mandate.

2. The Agency's HR-to-Pay process includes the information, systems and staff responsible for processing and reporting payroll. Many stakeholders are involved in the HR-to-Pay process including key functional areas in the Human Resources Branch (HRB) and the Finance and Corporate Management Branch (FCMB), as well as Cost Centre Managers and employees across the Agency.

3. The CBSA has a Memorandum of Understanding with the Canada Revenue Agency (CRA) for information technology (IT) services, allowing the Agency to use CRA's Corporate Administrative System (CAS), which is an SAP based system, to manage its human resources and finance activities, including payroll.

4. The Government of Canada implemented a new payroll software called 'Phoenix' in 2016 to centralize pay operations across all departments and agencies. The Agency is referred to as a 'web-service organization' (also known as a 'Non-Pay Centre' organization), which means the Agency uses its own HR system (CAS) to interface with Phoenix and is not a client of Public Services and Procurement Canada's (PSPC) Pay Centre. The Agency's Compensation Advisors use CAS to process pay actions. Pay information is then transmitted to the Phoenix system to pay employees.

5. The transition to Phoenix had a significant impact on the Agency's HR-to-Pay process, systems and employees. Since its implementation, Phoenix has not functioned as intended, has led to a high number of incorrect payments, and increased the need for manual intervention.[1] In order to ensure that employees were paid accurately and on time, the Agency has taken measures to address Phoenix-related issues by:[2]

    - investing over $5.8 million to resolve complex-on-going integration issues between CAS and Phoenix through the Pay Modernization project
    - establishing oversight functions, supported by internal dashboards and trackers
    - implementing a process for priority payments for emergency pay requests, including a streamlined financial process and courier services for the delivery of urgent payments
    - applying a tiered approach to process compensation requests
    - attending external working groups within the HR Government of Canada community to raise concerns and discuss issues faced by CBSA

---

[1] OAG Report – Building and Implementing the Phoenix Pay System (2018)
[2] CBSA Compensation Management Response to Privy Council Office

6. Following several years of systems issues and capacity limitations, a backlog of current and prior year compensation cases has built up. The HRB tabled a strategic plan to the Human Resources Executive Committee in February 2020 to address the backlog (Compensation Backlog Strategy). The Agency had 2,578 backlog cases in December 2020, 14% of which refer to cases from 2018 or earlier[3]. Although the backlog is being reduced, compensation staff are still required to address a high number of pay transactions on a monthly basis.

2.0   Significance of the audit

7. The implementation of Phoenix resulted in negative impacts on the federal government with thousands of employees being affected financially, including employees at the CBSA. In the Public Service, employees have been deferring promotions and job transfers, refusing overtime, and even delaying retirement because of eroding trust in Phoenix.[4]

8. Reputational damage may occur when pay issues are covered in the media and may result in deterring qualified employees from joining the Agency. Inaccurate pay can also affect the wellness and productivity of employees as it may cause frustration and be detrimental to their emotional and financial health.

9. Inaccuracies in employee compensation, such as overpayments, can lead to financial loss for the Agency if not corrected. Given the materiality of the Agency's salary expenditure, it is important that the controls around this process work effectively to ensure it is reported in an accurate, complete and timely manner on the Agency's financial statements.

10. Furthermore, given the errors identified by the Office of the Auditor General (OAG) in their pay file reviews, as well as limited previous internal audit and internal control coverage in this area, a commitment was made in the Risk-Based Audit and Evaluation Plan 2019–2020 to conduct an internal audit of compensation.

11. The objective of this audit was to assess the adequacy and effectiveness of the governance and controls over the HR-to-Pay process, as well as to assess whether stakeholders have access to training and support to effectively execute the HR-to-Pay process.

12. The audit scope included the processes and internal controls over the HR-to-Pay lifecycle (including the timeliness and accuracy of pay actions) as well as controls over the financial reporting, governance and oversight of HR-to-Pay function, communication and training.

13. The audit scope and criteria can be found in Appendix A.

3.0   Statement of conformance

14. This audit conforms to related Treasury Board's *Policy* and *Directive on Internal Audit* and the Institute of Internal Auditors' *International Professional Practices Framework*. Sufficient and appropriate evidence was gathered through various procedures to provide an audit level of assurance. The Agency's internal audit function is independent and internal auditors performed their work with objectivity as defined by the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing.*

---

[3] Monthly Regional Report on Tier Assessment – December 2020
[4] Audit of PCH Pay System Control Environment, Canadian Heritage (May 2018)

4.0   Audit opinion

15. The Agency has established HR-to-Pay procedures, guidance, and support for HR-to-Pay stakeholders. Opportunities exist to ensure pay actions are completed in a timely and accurate manner by improving governance and communication between all the internal working-level stakeholders and providing sufficient and relevant training to compensation staff. More can also be done to ensure HR systems access is better controlled. There remain significant issues concerning the internal controls over the process. It is imperative that the right internal controls be in place and work as expected to reduce the risks associated with inaccurate pay and financial reporting.

5.0   Key findings

16. Gaps exist in the HR-to-Pay internal control framework. More than half of the controls are not designed, documented, or operating effectively. These gaps increase the risk of processing invalid or inaccurate pay transactions. Concerns first raised by the OAG in 2017–2018 have not yet been addressed.

17. The systems used in the HR-to-Pay process do not always facilitate the end-to-end process without errors. However, these errors can be mitigated by increased training and reducing the retroactive processing of late pay actions. Compensation has launched the "Timeliness Pays!" initiative to ensure key documentation is received in a timely manner, which will help reduce errors created by late processing of pay actions.

18. The audit identified cases where users were provided incompatible roles in the HR Systems. While in some instances these users require elevated access, additional oversight and monitoring was not implemented to ensure the access is used appropriately.

19. In the absence of formal training specifically designed for Compensation Advisors of web-service organizations, an in-house reference tool was in the process of being developed. Compensation Advisors rely on guidance such as standard operating procedures, reference manuals and policies.

20. Formal internal governance channels are used to communicate on HR-to-Pay issues with senior management. However, formal mechanisms to facilitate collaboration and decision making at the working level have not been developed. This is an issue as stakeholders have difficulty working collaboratively, despite the interdependencies that exist in the HR-to-Pay process. There is a lack of understanding or appreciation of the priorities and concerns faced by other groups that can negatively impact the timely processing, payment and reporting of pay.

6.0   Summary of recommendations

21. The audit makes five recommendations relating to:
    - improving collaboration and communication between functional areas at the working level of the HR-to-Pay process
    - finalizing and implementing a comprehensive compensation training program tailored to the CBSA web-services environment
    - monitoring compliance with the newly established service standards for the timely submission of documents to HR by Cost Centre Managers

- addressing gaps in the documentation and the design of controls in the HR-to-Pay internal control framework and testing the operating effectiveness of the controls on a regular basis
- revising the process for approving and granting roles for the HR-to-Pay systems and regularly monitoring users who have been granted incompatible roles in the HR-to-Pay systems

7.0 Management response

> The Vice-President of Human Resources agrees with the audit findings and will ensure that actions are taken to improve monitoring and reporting, to implement a comprehensive training program and to increase collaboration between stakeholders as detailed in this action plan. Overall, HRB will work in close partnership with the Finance and Corporate Management Branch to immediately address shortcomings and improve the overall management and oversight of the compensation program at the Canada Border Services agency (CBSA).
>
> The Vice-President of the Finance and Corporate Management Branch (FCMB) agrees with the audit recommendations and will ensure that robust compensation processes and controls are in place within the CBSA. FCMB will work with business process owners to immediately address the gaps observed in documentation and design effectiveness. The HR-to-Pay framework will be revised and specific recommendations will be made to the respective business owners to address any control deficiencies. Risk-based testing will be conducted to validate that the measures implemented are yielding the expected results. In order for these action plans to be successful, HRB's full engagement and collaboration will be essential.

8.0 Audit findings

8.1 Accountability, governance and communication

Roles and responsibilities

22. The Agency's HR-to-Pay process is based on the seamless and timely communication of information between its key internal stakeholders.[5] For example, Cost Centre Managers are responsible for completing the documentation to hire an employee, which is then sent to Staffing to generate a letter of offer. Compensation receives the signed letter of offer to enter pay information within the HR-to-Pay systems. Once the information is entered and an employee is paid, Corporate Accounting is responsible for reporting payroll expenditure. Given these interdependencies, it is important that all stakeholders understand their roles and responsibilities, as well as how their roles impact the other stakeholders involved.

23. Roles and responsibilities for various activities in the HR-to-Pay process were identified and documented in job descriptions and on the CBSA's intranet pages. Most key stakeholders we surveyed[6] understand their own roles and responsibilities related to the HR-to-Pay process. However, more than 50% of stakeholders from each functional area

---

[5] Further information on internal and external stakeholders is available in Appendix C.
[6] See Audit Methodology in Appendix A for details of Internal Audit's survey.

responded that they do not understand the roles and responsibilities of other stakeholder groups as they relate to the HR-to-Pay process. The HR-to-Pay process is not centrally documented anywhere, and as such, the interrelations and dependencies between stakeholders are not clearly communicated to all involved.

24. Overall, roles and responsibilities of employees working within the HR-to-Pay processes are clearly defined and communicated. Increasing awareness of the roles and responsibilities of all areas involved in the process would help individual stakeholders better understand how others contribute to the overall efficiency and effectiveness of the HR-to-Pay process.

Internal information sharing and communication

Communication with the Agency's internal HR-to-Pay stakeholders

25. In order for the process to function in a seamless and timely manner, it is important to ensure that the proper information is being communicated to all HR-to-Pay stakeholders. Forty-five percent (45%) of stakeholders surveyed expressed dissatisfaction with communication amongst all internal stakeholders involved in the HR-to-Pay process. Communication among the internal HR-to-Pay stakeholders has traditionally been conducted via e-mail. However a workload management system, known as the Employee Interaction Centre (EIC), was launched in March 2018. The EIC allows key documents to be shared electronically between the Staffing and Compensation teams. Despite the fact that the EIC became the national system for all regions to share information in October 2019, it has not been fully adopted. Furthermore, while this system has facilitated sharing key documentation between the Staffing and Compensation teams, it does not address other communications issues identified by stakeholders. For example, staff in executive compensation, accounting operations, internal controls and HR systems indicated that they could benefit from more collaboration with other functional areas involved in the process. When compounded with the gaps in understanding other stakeholders' roles and responsibilities, there is a risk that stakeholders may not understand or be involved in the development and execution of the plans and priorities that drive the HR-to-Pay process.

26. As team work and communication between stakeholders is critical for the efficiency and effectiveness of the HR-to-Pay process, it is essential that communication channels and tools be optimal.

Recommendation 1: The Vice-President of the Human Resources Branch, in collaboration with the Vice-President of the Finance and Corporate Management Branch, should improve communication and teamwork between functional areas at the working level of the HR-to-Pay process so that information sharing between key stakeholders be timely, efficient and effective to promote collaboration, and prevent avoidable issues with processing and reporting pay.

Management response: Overall the Vice-President of the Human Resources Branch agrees with this recommendation and will ensure that quarterly meetings take place with stakeholders from within HRB as well as FCMB.

Completion date: March 31, 2022

CBSA corporate governance

27. One|HR, Executive Committee – Human Resources, and the Executive Committee are the key internal corporate governance bodies for the HR-to-Pay process. These committees

are the forum for bringing HR-to-Pay issues to the attention of the Agency's Senior Management.

28. Per our review of agendas and records of decision, these internal governance committees receive periodic updates on the progress towards the Compensation Backlog Strategy, including HRB's recent timeliness initiative, "Timeliness Pays'', demonstrating that the Agency's Senior Management receive information relevant to the current high-priority items periodically.

Communication with employees

29. Each region has implemented their own methods for communicating with their employee-base. This can include communicating directly with employees or by communicating through management and administrative personnel.

30. Communication regarding important pay announcements, general updates to the HR-to-Pay process, as well as new initiatives, are done Agency-wide through the daily newsletter (*CBSA Daily),* emails from the President, and/or CBSA's internal web pages (i.e. Atlas, Apollo).

31. Despite these efforts, employees responded that they did not receive sufficient information on the HR-to-Pay process in general. In addition, nearly half of the employees (49%) surveyed expressed that they did not receive sufficient communication and support regarding their pay file. This perceived lack of communication with employees can lead to frustration and confusion, making ongoing, clear communication an important element of the HR-to-Pay process.

Communication with external stakeholders and governance bodies

32. Given the influence external stakeholders have on the Agency's HR-to-Pay process, it is important that the Agency be represented at external governance committees when important topics are discussed and decisions are made.

33. The Agency and/or HRB participates in various external committees and working groups to gather information and share the Agency's perspective. Information gathered at these external working groups is shared within the Agency via established internal governance channels, and is used to influence improvements to the HR-to-Pay process. We found that there were sufficient channels for communication between the Agency, Treasury Board Secretariat and CRA.

34. Information shared by PSPC with the Agency is sometimes perceived as limited in value for the CBSA as it does not always apply to web-service organizations.[7] Specifically, through interviews and survey responses, CBSA employees expressed concerns that communication on training or system updates from PSPC were not always relevant to the Agency's operating environment as a web-service organization and required modifications in order to be relevant. Receiving relevant communications is critical to ensuring that the CBSA is able to react to issues promptly. The survey results are consistent with the findings noted in the PSPC HR-to-Pay Program Office's April 2019 Environmental scan of Non-Pay Centre Organizations, which identified that communications from PSPC are focused on the Pay Centre service model, and PSPC's stakeholder engagement activities do not consider the needs and concerns of Non-Pay Centre organizations.

---

[7] See details of Web-Service Organizations (or Non-Pay Centre Organizations) in Section 1.0 – Background

Impact of timeliness of communication on pay accuracy

35. Compensation staff (includes both Compensation Operation and Corporate Compensation) stress that information must be entered in the HR-to-Pay systems in a timely manner to avoid impacting an employee's pay. The Office of the Auditor General's Fall 2017 Report on Phoenix Pay System[8] reported that Phoenix is only capable of processing pay actions that are entered in real time, and that retroactive payments require manual intervention in order to not impact an employee receiving timely and accurate pay.

36. More than half (54%) of the survey respondents from Compensation Operations and Staffing were concerned that payroll documents[9] were not submitted to them in a timely manner; and 69% responded that the documents were often incomplete for the purposes of processing a pay action in the HR-to-Pay systems.[10] The submission of incomplete documentation also affects the timely processing of pay actions as compensation advisors may delay processing a transaction until satisfactory documentation is provided.

37. Further to the survey, the high percentage of untimely submissions were confirmed in our review of pay files, where we noted instances where Cost Centre Managers did not provide documentation to Staffing in a timely manner. For example, in a sample of 15 overpayments selected for testing, the timeliness of documents was found to be an issue in about half of them (8 of 15).

38. To address issues with the timely submission of critical payroll documents and prevent payroll errors, the HRB launched a new "Timeliness Pays!" initiative for non-executive pay actions. As of September 30, 2020, documents submitted to Human Resources (HR) Staffing Advisors must be sent within the timelines established by the HRB. Exceptions to the timelines are only permitted if approved by the Vice-President or Regional Director General of the requesting branch.

39. Ensuring that the information impacting payroll is initiated and actioned in a timely way is critical to the accuracy of employees' pay. Keeping momentum on strategies related to timeliness and fostering collaboration between key stakeholders will help the Agency reduce compensation errors and backlog.

Recommendation 2: The Vice-President of the Human Resources Branch should monitor and report on the compliance with the service standards for the timely submission of complete documents to HR by Cost Centre Managers (effective September 30. 2020) to ensure that the service standards and approval required for exceptions are being followed.

Management response: Agreed. On September 30, 2020, service standards for 14 specific staffing actions were identified, which hiring managers must respect in submitting all required documents. If the established service standards are not respected, HR Staffing has the necessary authority to delay the effective start date.

HRB will monitor and report on all VP/RDG approved exception requests to assess the volume and report back to VP HRB every three months to ensure that the exceptions do not negate the HR-to-Pay timeliness initiative. First report to VP HRB is planned for the end of March 2022.

Completion date: March 31, 2022

---

[8] OAG Report - Phoenix Pay Problems (2017)
[9] Payroll documents include authoritative forms, supporting items, etc.
[10] The issues with timeliness and completeness that were flagged do not apply to the Executive Compensation team, who have separate processes and timeline requirements for handling executive pay files.

8.2   Recruitment, training, guidance and retention

Training and support

40. Adequate guidance, training and support are key to ensuring that all HR-to-Pay stakeholders can effectively execute their responsibilities. The Agency does not have a mandatory or formal compensation training program available for employees. Additionally, any compensation-related training taken by employees is not documented or tracked by the branch. While on-the-job training is provided, only 43% percent of Compensation staff surveyed found it to be sufficient.

41. To address the gaps in formalized and on-the-job training, Corporate Compensation was in the process of developing an in-house reference tool to assist new and existing Compensation Advisors. Additionally, mandatory training in client service delivery was taken to address improvements required for communication with employees on pay file issues.

42. The Agency's Compensation staff also have access to PSPC's training on HR-to-Pay processes. While the PSPC training is intended to be general enough for all users, the environmental scan identified that "almost all organizations indicated they need to adapt training materials to fit their context, which creates an additional burden".[11] When misapplied, the PSPC training can actually lead to errors, such as when a CBSA Compensation employee performs actions in Phoenix that are only meant for Pay Centre departments (i.e. not a web-service organization). When PSPC training and updates are disseminated to the community, Compensation must adapt and clarify the messaging in order to make it relevant for the CBSA.

43. Similar observations related to the sufficiency of training for compensation advisors have been identified by the OAG during their audit of the CBSA's Financial Statements. For the past two years, the OAG has recommended that the CBSA collaborate with PSPC and other stakeholders to assess training needs and develop training plans.

44. In lieu of training, Compensation staff depend on a number of other tools and guidance, such as standard operating procedures, reference manuals, and policies. However, while valuable, these resources do not replace training for establishing the foundation required to process various compensation actions.

45. A lack of relevant training and support can impact an employee's ability to effectively execute their duties. A formalized training program and supporting tools would assist with the effectiveness and consistency of pay processing, as well as strengthen compensation service delivery.

Recommendation 3: The Vice-President of the Human Resources Branch should finalize and implement a comprehensive compensation training program tailored to the CBSA web-services environment.

Management response: Agreed. Overall the Vice-President of the Human Resources Branch agrees with this recommendation and will ensure that a comprehensive training curriculum for Compensation Advisors, tailored for the CBSA, is finalized and implemented.

Completion date: March 31, 2022

Recruitment and retention

---

[11] PSPC HR-to-Pay Program Office's April 2019 Environmental Scan of Non-Pay Centre Organizations, p.7.

46. The Agency requires a sufficiently staffed compensation function to process pay actions in a timely manner. In order to meet work demands, compensation uses a combination of indeterminate, determinate (term), casual and student employees. Most Non-Pay Centre organizations, including the CBSA, have faced challenges in the recruitment and retention of Compensation Advisors. Reports show that Non-Pay Centre Compensation Advisors are leaving their organizations for better classification, pay and training opportunities with the PSPC Pay Centre.[12]

47. Interviews with Compensation staff highlighted a discrepancy in the classification of Compensation Advisors at the Agency when compared to the Pay Centre Compensation Advisors for similar jobs. When surveyed, 38% of Compensation Operations employees indicated that they would consider leaving the Agency for a job at-level elsewhere in the government. Compensation has initiated a review of the classification of job descriptions for operational compensation employees to ensure they are aligned with those of other government departments.

48. The attrition rates of Compensation Advisors we calculated are greater than the overall CBSA rates:

Table 1 – Attrition rates

	2018	**2019**
Compensation attrition rate[13]	12%	13%
CBSA attrition rate[14]	6.5%	5.6%

49. In our sample of 14 indeterminate Compensation employee departures, five employees transferred to other government departments, and three of the five at the same classification level. The remaining nine employees in the sample retired.

50. Staffing challenges have been identified in the Compensation Backlog Strategy along with a plan to recruit additional Compensation Advisors. They have leveraged the population of retired Compensation Advisors by recruiting some retirees to assist directly with clearing the backlog. Additionally, retention strategies, such as providing opportunities to internal staff, looking at extending a retention allowance to compensation staff and updating job descriptions, have also been identified to facilitate the retention of Compensation Advisors.

51. When commenting on their job satisfaction, 60% of Compensation staff indicated that they were satisfied with their job and 49% felt supported in their career development. Of the employees that identified being satisfied with their job, the most common reasons for job satisfaction included recognition, good relationships, and the challenge in the job, as well as the ability to promote change or help a client. On the other hand, reasons for job dissatisfaction included a lack of proper training, systems issues, lack of recognition, overwhelming or stressful work levels, and unrealistic deadlines.

52. Despite the challenges to maintaining a fully staffed compensation function, HRB continues to implement strategies to recruit and retain qualified resources.

---

[12] PSPC HR-to-Pay Program Office's April 2019 Environmental Scan of Non-Pay Centre Organizations.
[13] Departures of Compensation staff between July 1, 2018 and June 30, 2020 from the CAS.
[14] 2020-09-16 Orientation Session 01 HRB Overview E.

8.3 HR-to-Pay controls and systems

HR-to-Pay internal controls

53. The Government of Canada's *Policy on Financial Management* outlines the requirement for "establishing, monitoring, and maintaining a risk-based system of internal control over financial management" and "ensuring that prompt corrective action is taken when control weaknesses and material unmitigated risks are identified, including the risk of fraud".[15]

54. A well designed internal control framework consists of actions carried out by employees as well as actions designed in a system to ensure a process is properly controlled. The HR-to-Pay internal controls are outlined in Appendix D and include actions such as approvals, reconciliations, peer reviews and IT system restrictions. An internal control framework that is operating effectively ensures that processes are followed and systems are working as intended on a regular basis.

55. Within the HR-to-Pay process, the Agency relies on the internal controls to ensure that:

- pay actions are timely, valid and accurate
- payroll expenditure reporting is free from material errors
- risks to the administration of the Agency's payroll are minimized

56. As part of their mandate, the Agency's Internal Control team (within FCMB) is responsible for documenting the HR-to-Pay Internal Control Framework (framework) and assessing the controls within that framework to ensure they are operating effectively.

57. We used the framework developed by the Internal Control team to assess the key HR-to-Pay controls.[16] In addition to controls from the framework, we identified and tested IT system controls involved in the HR-to-Pay process. In total, we tested 53 controls consisting of 29 manual[17] and 24 IT controls[18]. The controls were tested by sampling 155 pay actions.[19]

58. The results of the control testing are summarized in Table 2. Further details on control descriptions and the results are included in Appendix D.

Table 2 – Internal control testing results

Control activity	Operating effectively	Operating ineffectively	Designed ineffectively	Not adequately documented
Adding employees to payroll	1	4	2	1
Payroll modifications	-	-	-	3
Time approval	1	-	1	1

---

[15] *Policy on Financial Management,* paragraphs 4.2.8 and 4.2.10.

[16] The Treasury Board Secretariat Guide to Ongoing Monitoring of Internal Controls over Financial Management was used to determine appropriate sample sizes for testing of internal controls. It recommends sample selection based on the frequency of the control activity.

[17] Manual controls are controls that are performed by an individual (not by an IT system).

[18] IT controls are system dependent and often built into the system to run in an automated manner.

[19] Some pay actions were used to assess multiple controls.

Recording of payroll expenditures	1	2	-	1
Payroll monitoring	2	2	1	-
Removing employees from payroll	-	6	-	1
CAS IT user access	4	2	-	-
CAS IT automated controls	12	-	-	-
Phoenix IT user access	5	-	-	-
Total	26	16	4	7

59. Of the 53 controls, only 26 (49%) controls were deemed to be operating effectively, as there was sufficient evidence to show that the control activity was working as intended for all files sampled. The remaining 27 (51%) controls were either operating ineffectively, designed ineffectively or not adequately documented. While it is expected that some controls will require revisions from time to time, the number of controls that were found to be not documented or designed adequately suggests that the framework is not reflective of what employees are actually doing. Of greater concern was the number of controls found to be ineffective (16 out of 53 or 30%) as this means that important activities, on which we rely for pay accuracy, are not being performed as they should.

60. As shown in Table 2, we identified errors in 16 controls (operating ineffectively) where one or more of the files sampled did not contain sufficient support to show the control was working as intended. For instance, Compensation Advisors are required to prepare a calculation verifying the accuracy of an employee's first pay. In some of the files sampled, a calculation was not completed and a rationale for not preparing the calculation was not on file.

61. Given that the HR-to-Pay process has evolved since being documented, we observed that four control descriptions were outdated. We also noted seven instances where the description of the activity in the framework was no longer aligned with the actual process or the description did not clearly identify the key aspects of the activity. For example, the position who was required to approve a pay action.

62. Our observations also cover internal control weaknesses that have been previously highlighted by the OAG's annual audit of the CBSA's Financial Statements. One of the more notable gaps identified by the OAG in the 2017-2018 audit was a weak process to approve payments (*Financial Administration Act* Section 33) and identify potential errors related to pay. Despite the amount of time that has passed since this issue has been known, the controls for *Financial Administration Act* Section 33 approval had not yet been strengthened.

63. Without documented controls that are designed and operating effectively, there is a higher risk of invalid or inaccurate payments. Invalid and/or inaccurate payments can lead to employee frustration, financial loss, reputational damage or inaccurate reporting of payroll expenditure, and, as such, requires immediate attention. It is imperative that the required changes to the framework be made, that the framework be monitored and tested on an ongoing basis and that the importance of properly following established processes and procedures be reiterated.

Recommendation 4: To mitigate the risks associated with the control failures identified in the audit, the Vice-President of the Finance and Corporate Management Branch should immediately ensure that the Corporate Accounting, Financial Policy and Internal Controls Division:

a) consult with business process owners in FCMB and HRB to address documentation and design effectiveness issues identified in the audit
b) revise the HR-to-Pay internal control framework based on consultations conducted in a)
c) issue recommendations to business process owners to rectify control weaknesses identified in the audit
d) consult with stakeholders and plan for testing and reporting on the design and operating effectiveness of the revised framework

Management response:

a) Agreed. The Vice-President of FCMB will work with HRB (Office of Second Interest, OSI) in order to address the design and documentation deficiencies identified in the audit report. The FCMB working with HRB will strengthen the processes to ensure they are operating as designed and generating the expected outcomes.
b) Agreed. The Vice-President of the FCMB will work with HRB in order to re-evaluate the HR-to-Pay internal control framework. The updated framework should address the issues related to internal control documentation and design ineffectiveness. The Revised framework should minimize the risks to the administration of the agency's payroll.
c) Agreed. The Vice-President of the FCMB Branch will work with HRB to continue to address opportunities to improve control deficiencies observed in the audit report. Specific recommendations targeting controls not operating effectively will be brought to the attention of the relevant Business Process Owners. A follow-up will ensure that the recommendations are implemented and provide sufficient evidence that the weaknesses are being addressed.
d) Agreed. In order to certify that the revised control framework is efficient, the Vice-President of the FCMB Branch will develop a plan to seek assurance by conducting design and operating effectiveness testing of the HR-to-Pay control framework. The tests will be risk-based and aimed to certify/confirm the design and operating effectiveness of the revised control framework.

Completion date:

a) September 30, 2021
b) December 31, 2021
c) September 30, 2021
d) March 31, 2022

IT systems

64. The Agency uses two systems that are critical to the HR-to-Pay process: CAS and Phoenix. Phoenix was implemented and is maintained by PSPC and CAS is hosted and maintained by CRA. Since the Agency is a web-service organization, pay actions are entered into CAS and data is transmitted to Phoenix for the issuance of the employee's pay. In order to efficiently and effectively process pay actions, systems must meet the needs of their users. We assessed whether CAS and Phoenix met users' needs and accurately processed transactions.

65. Per the internal audit survey, most of the Compensation staff (81%) stated that they feel the HR systems have the right functionalities for them to do their job. Furthermore, the

majority of Compensation Operations, Corporate Compensation and HR Systems employees responded that risks related to the systems have been identified (71%) and that these risks were being actively managed (80%).

66. However, the majority of operational staff (73% of Compensation and 73% of Staffing) are concerned that system limitations, due to integration issues between CAS and Phoenix, prevent the accurate capture of relevant HR information. We were informed that even if a pay action is accurately processed by the Compensation Advisor and entered into CAS, Phoenix may not issue correct payment.[20] While reviewing pay files, we observed an instance where the Compensation Advisor entered accurate information in Phoenix that resulted in an invalid payment where a duplicate cheque was issued to the employee.

67. Phoenix also has issues processing payments, such as processing collective agreement changes or late pay actions. In an effort to align CAS and Phoenix payroll data, Corporate Compensation compare employee job data in CAS against data in Phoenix on a daily basis and correct any discrepancies between the two systems. This creates additional work and does not always prevent inaccurate pay, as the discrepancies may not be identified in time to make the necessary corrections. Invalid payments issued by system limitations can cause frustration amongst employees who are either owed pay or have to reimburse the Agency for an overpayment.

68. In order to understand what could affect the validity of payments within the HR-to-Pay systems, we analyzed Phoenix data related to overpayments, to distinguish the potential root cause of the errors. A sample of 15 known overpayments was selected for our analysis. By tracing the payment through the HR-to-Pay process, we were able to determine the following root causes:

- processing late payments (eight payments): late submission of critical information by the cost centre manager (acting end date) or late entry of pay action (e.g. an employee receiving full pay while on leave due to documentation being submitted or entered after the effective date)
- system errors (one payment): Phoenix generated a duplicate cheque, however this was caught and cancelled before payment to the employee
- subsequent revision of timesheets (six payments): an employee reported their time using a paid timecode (overtime compensated as payment, leave with pay) and subsequently changed their reported time to a non-paid timecode (overtime compensated as leave, leave without pay) after the payment was issued

69. The current pay systems and associated interfaces do not always facilitate an accurate end-to-end compensation process. However, with increased focus on communicating and educating employees and managers on the impact various behaviours have on pay accuracy, as well as training for HR systems users and the timely submission and processing of pay actions, the Agency can reduce the issues that are within its control.

IT systems – segregation of duties

70. Segregation of duties (SOD) is required when assigning access rights to users of a system in order to prevent an individual from having incompatible duties (i.e. initiating, approving, and reviewing the same transaction). The restriction in access is designed so users cannot initiate unauthorized transactions. For example, having segregation between individuals

---

[20] PSPC HR-to-Pay Program Office's April 2019 Environmental Scan of Non-Pay Centre Organizations, Page 11.

who process pay actions and those who approve pay actions reduces the potential for fraud and helps to ensure that only valid actions are entered into systems. In instances where SOD cannot be maintained, it is expected that mitigating controls are in place to prevent inappropriate use or fraud.

71. Incompatible roles in the HR-to-Pay IT systems have been identified by system owners[21] of CAS and Phoenix. We assessed whether the SOD was being respected by the CBSA.

Segregation of duties in CAS

72. Each role granted to a user has various combinations of available actions and permissions associated with it. We attempted to assess whether the permissions, known as transaction codes (T-codes), associated with each role were appropriate. However, we were unable to obtain documentation that showed which T-codes are incompatible. Due to this limitation, we assessed segregation of duties at the role level.

73. Compensation Advisors are given the "Compensation –Transaction Processing" role within CAS that allows them to process pay actions. There are four roles with which the "Compensation – Transaction Processing" role cannot be combined. Requests for these roles are submitted through the Agency's IT ticketing system by the employee's manager and then sent to the appropriate authorized individuals to be granted.[22]

74. We identified six users who had incompatible roles in CAS. Four users had the ability to authorize and process pay actions. Two users had the ability to process pay actions and modify the pay list to which an employee is assigned, which would allow them to process pay actions for those employees. All six situations of incompatible roles were removed after we brought them to management's attention.

75. Given that incompatible roles were granted by authorized individuals, it is important that the SOD matrix be consulted prior to granting access to CAS in order to reduce the likelihood that employees receive access to incompatible roles.

Segregation of duties in Phoenix

76. PSPC identified specific roles in the Phoenix SOD matrix that should not be granted in combination with each other. These roles include, among others: Compensation Advisor, Section 33 Approver and HR Systems Analyst. In order to request a role in Phoenix, the employee's manager must submit a form to the Agency's Phoenix Security Access Control Officer.

77. When incompatible roles are unavoidable, an attestation by the Chief Financial Officer is required by PSPC to authorize the override. We found that six users had a combination of incompatible roles, which the Agency's Chief Financial Officer authorized.

78. When granting incompatible roles, the Chief Financial Officer is required to confirm that compensating controls are implemented to manage the risks created by allowing incompatible roles to exist in the system. The Corporate Compensation team has recently initiated a quarterly review of the appropriateness of user access in CAS and Phoenix. However, no compensating controls are in place that would reduce the misuse of the incompatible roles. Business Process Owners in HRB and FCMB for systems related to the HR-to-Pay process do not perform any monitoring of user activity in Phoenix or CAS, specifically for those with incompatible roles. Furthermore, these process owners do not

---

[21] The CAS SOD matrix was developed by CRA, the Phoenix SOD matrix was developed by PSPC.
[22] Business Process Owners, the Subject Matter Experts and the Role Approvers grant access to CAS Roles.

assess incompatible roles across the two systems to ensure that duties are segregated for users with access to both systems.

79. While we did not come across any signs of fraud during the pay file review, the lack of monitoring of user activities within the systems and instances of controls designed or operating ineffectively increase the risk of fraud.

Recommendation 5: To prevent potential misuse of the systems used in the HR-to-Pay process, the Vice-President of the Human Resources Branch, in collaboration with the Vice-President of the Finance and Corporate Management Branch, should:

a) revise the role approval process for CAS roles used within the HR-to-Pay process to ensure that incompatible roles are avoided, and if necessary, appropriate approval is provided and documented

b) ensure compensating controls are in place, including regularly monitoring users who have been granted incompatible roles in the HR-to-Pay systems to ensure their access privileges are not being inappropriately used

Management response: Agreed. The Vice-President of the Human Resources Branch and VP Finance and Corporate Management Branch agree with this recommendation and will ensure that the CAS and Phoenix roles, that are used within the HR-to-Pay process, are reviewed quarterly and include appropriate proof of approval and documentation when incompatible roles are granted.

Completion date: March 31, 2022

Appendix A – About the audit

Audit objectives and scope

This Audit of Compensation Processes and Controls was approved by the Agency's Audit Committee as part of the Risk-Based Audit Plan 2019–2020 to 2023–2024.

The audit objective was to assess the adequacy and effectiveness of the governance and controls over the HR-to-Pay process, as well as to assess whether stakeholders have access to training and support to effectively execute the HR-to-Pay process.

The audit scope covered the CBSA's HR-to-Pay process between July 1, 2018 and June 30, 2020. However, for the purpose of controls testing, the scope focussed on fiscal year 2019–2020. Specifically, this audit examined:

- processes and internal control framework for the HR-to-Pay lifecycle, including the timeliness and accuracy of pay actions
- financial reporting of the Agency's payroll expense
- pay system controls
- governance and oversight of HR-to-Pay function
- communication and training

This audit did not include the following:

- elements of processes and systems that are outside of the control of the CBSA
- information management practices over employee personal information
- employee benefits and insurance
- payroll taxes and deductions administered by PSPC

Due to limitations surrounding the COVID-19 pandemic, there was no travel during this audit; however, all regions were included and some were contacted for interviews, survey and/or documentation requests.

Risk assessment

A preliminary risk assessment was conducted during the audit planning phase to identify potential areas of risk as well as audit priorities. The methodology used to develop the risk assessment included interviews with stakeholders involved in the HR-to-Pay process, reviews of relevant documentation and preliminary analysis of available reports. As a result of this assessment, the following key risks related to the HR-to-Pay process were identified and assisted with the development of the audit objective, scope and criteria:

- the agency's HR-to-Pay processes and controls may not be designed and operating effectively to facilitate accurate and prompt payment to employees
- communication may not occur promptly and transparently with internal stakeholders, including the sharing of sufficient information with senior management to facilitate strategic decision-making
- employees may be unclear or unaware of their roles and responsibilities and may receive insufficient training leading to errors or inefficiencies in the execution of the HR-to-Pay processes
- agency may not be able to recruit and retain qualified Compensation Advisors leading to untimely processing of pay actions or errors in the execution of the HR-to-Pay processes
- errors in the payroll expenditure data may impact the accuracy of the Agency's Financial Statements; the agency may be relying on third party stakeholders for ongoing support

and maintenance without having sufficient assurance or oversight over critical compensation systems

Approach and methodology

The examination phase of this audit was performed using the following approach:

- interviews with various individuals involved in the HR-to-Pay process in headquarters and the regions
- survey was sent to 870 internal HR-to-Pay stakeholders; we received responses from 287 stakeholders, which resulted in a 33% response rate
- review of documentation related to the HR-to-Pay processes
- walkthroughs of compensation systems and sub-processes
- review and analysis of data from various sources including the Corporate Administrative System (CAS), EIC and Phoenix
- review of a sample of pay transactions to assess process compliance and internal controls

Audit criteria

Given the preliminary findings from the planning phase, the following criteria were chosen:

Line of enquiry 1: Accountability, governance and communication

Audit criteria:

- 1.1 Roles, responsibilities and accountabilities related to the Agency's HR-to-Pay activities are clearly defined and communicated to the relevant stakeholders.
- 1.2 Relevant information is collected and communicated in a timely manner to stakeholders through formal governance forums and other channels, both internally (communication between branches, communication with impacted employees) and externally (communication with other government departments).

Line of enquiry 2: Recruitment, training, guidance and retention

Audit criteria:

- 2.1 Employees receive guidance, training and support to perform their duties, both internally by the Agency and externally by PSPC, where applicable, in order to effectively execute their responsibilities.
- 2.2 Mechanisms are in place to recruit and retain Compensation Advisors.

Line of enquiry 3: HR-to-Pay controls and systems

Audit criteria:

- 3.1 Key HR-to-Pay internal controls are operating effectively to ensure that pay transactions are valid and accurate for processing of pay-related actions, as well as the reporting of payroll expense in the Agency's financial statements.
- 3.2 IT systems that support the HR-to-Pay process meet user needs and accurately process transactions.

Appendix B – List of acronyms

CAS   Corporate Administrative System
CBSA   Canada Border Services Agency
CRA   Canada Revenue Agency
EIC   Employee Interaction Centre
ESS   Employee Self-Service
FCMB   Finance and Corporate Management Branch
HRB   Human Resources Branch
PSPC   Public Service and Procurement Canada

Appendix C – HR-to-Pay stakeholders

Internal	
Human resources branch (HRB)	» Corporate Compensation: oversight and management of the Agency's compensation function » Compensation Operations: execution of the Agency's compensation function for Non-Executive employees » Executive Compensation: execution of the Agency's compensation function for Executive employees » HR Systems: management and execution of the Agency's HR systems » Staffing: delivering on the Agency's staffing priorities, including initiating and changing individual's employment status, impacting their pay
Finance and corporate management branch (FCMB)	» Corporate Accounting: reporting expenses, including payroll expenses, on the Agency's financial statements » National Financial Transaction Centre (NFTC): approving and issuing payments on behalf of the Agency, including payroll » Internal Control: documenting and testing the Agency's internal controls over financial reporting including account verification activities in accordance with central agency requirements
Cost centre managers	» Initiating, communicating, and approving changes to the employment status of their employees (hiring, promotions, leave, acting assignments, resignations, etc.)
Employees	» Reporting their hours worked in a timely and accurate manner
External	
Treasury Board Secretariat (TBS)	» Office of the Chief Human Resources Office (OCHRO): Oversight over Federal Government Human Resources functions
Canada Revenue Agency (CRA)	» Owner of CAS and responsible for system monitoring and maintenance
Public Service and Procurement Canada (PSPC)	» Owner of the Phoenix Pay System

Appendix D – HR-to-Pay internal controls

We reviewed and tested the following HR-to-Pay internal controls. The testing results are identified as follows:

- ✓ Control is operating effectively
- X Control is operating ineffectively
- • Control is not adequately designed or documented

Activity	Control
Adding employees to payroll	✓ Staffing requests are reviewed and approved (Border Services Officers) X Staffing requests are reviewed and approved (employees other than Border Services Officers) • Compensation Advisors validate new hire's first pay X Peer review of Compensation pay actions processed via Compensation Form and completion of checklist by Compensation Advisors (two controls) X Delegated staffing and financial authority sign off Human Resources Action Requests, 325-10 form and Letter of Offer (all employees) (two controls) • Delegated staffing and financial authority have received the appropriate training
Payroll modifications	• Approval of payroll modifications by delegated staffing and/or financial authority (maternity leave, leave without pay, change in tenure of employment, etc.) through a signed Human Resources Action Request, form 325-10 and/or signed Letter of Offer (two controls) • Staffing review and approve the authoritative documents for the payroll modifications
Time approval	✓ Chief approves border services officer time sheets related to overtime, shift premiums and other entitlements • Chief validates time sheet entries in Employee Self-Service (ESS) against attendance logs and ensures the pay codes identified are accurate and valid
Recording of payroll expenditures	X Corporate Accounting prepare year-over-year payroll expenditure analysis ✓ Corporate Accounting prepare adjustments for prior year payroll expenses • Regional Finance (or Financial Management Advisor) review year-end payroll payable and/or receivable accrual prior to submission to Corporate Accounting X Corporate Accounting receives the year-end payroll payable and/or receivable by email from the different groups for input in CAS
Payroll monitoring	X Corporate Compensation reviews I050 Phoenix file to check for overpayments, missing pay, etc. during the bi-weekly pay period X NFTC Review and approve Phoenix pay transactions over $15,000 ✓ Corporate Accounting reconciles CAS-FI Module and PSPC-GL ✓ Corporate Accounting reconciles salary expenditures between CAS-HR and CAS-FI Modules

	• Quarterly Corporate Accounting performs personal record identifier by personal record identifier variance analysis by reconciling Phoenix I050 file with CAS to identify retroactive payments, missing pay, overpayments, etc. for payroll journal recording purposes
Removing employees from payroll	X Cost Centre Manager review and approve departure form and resignation letter (two controls) X Compensation Advisor validate employee's last pay (two controls) X Compensation Advisor process and review the one-time payment owed to employee upon departure, including vacation leave without payout (two controls) X Compensation Advisor calculate severance pay for terminated employees
CAS IT user access	✓ CAS users only have one unique user profile X CAS user role structure maintains appropriate segregation of duties ✓ Row-level security is configured to restrict access to employee data by organization X Payroll actions within CAS for Taken on Strength, Timesheet Approval and Payroll Processing is restricted to authorized individuals and the respective roles are appropriately segregated X Access to enter manual journal payable/receivable (payable at year-end/receivable at year-end) year-end journal entries is restricted to the Corporate Accounting team ✓ Supervisors of users authorize the nature and extent of user access privileges X Management regularly reviews the list of users
CAS IT automated controls	✓ Automated transfer of HR data from CAS-HR to CAS-FI and ensure successful transfer of data ✓ Automated batch processing to update employee's status as 'Struck of Strength' in CAS ✓ Automated batch transmission of Section 34 approved timesheets in CAS ✓ Overtime hours cannot be entered in ESS in advance ✓ Daily automated upload of Phoenix I049 files in CAS ✓ Weekly automated calculation of salary based on ESS time sheet entries and payroll posting calendar ✓ CAS-ESS is configured to prevent employees approving their own time sheet ✓ ESS routes time sheet per the organization structure maintained in CAS ✓ ESS submitted time sheets are automatically routed to appropriate supervisor ✓ Rejected time sheets are automatically routed back to the employee to address issues identified by the Supervisor ✓ Approve Time Reports in ESS (Section 34) ✓ Unapproved Section 34 time sheets are escalated to next level Section 34 approver per the organizational structure in CAS

Phoenix IT user access	✓ Phoenix users only have one unique user profile ✓ Phoenix user role structure maintains appropriate segregation of duties ✓ Payroll processing actions within Phoenix is restricted to authorized individuals ✓ Supervisors of users authorize the nature and extent of user access privileges ✓ Quarterly review of Phoenix user access list