

Audit Report
Audit of Leave and Overtime
June 2010



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1.0 Executive Summary

1.1 Background

Public Safety Canada (PS) manages a budget of approximately \$426 million¹ and has a workforce of approximately 1000 people². With approximately twenty occupational groups, seven related collective agreements, and six non-unionized employee occupational groups, the management of leave and overtime (OT) can be a complex activity. Leave and OT administration is governed by various acts, regulations, policies, collective agreements, directives and guidelines.

At PS, the activities related to Leave and OT are performed by various functions:

The Corporate Management Branch (CMB):

- Human Resources Directorate (HRD):
 - The Compensation Unit (CU) is responsible for accurate and timely employee compensation for services rendered in accordance with collective agreements and established policies and procedures;
 - The Human Resources (HR) Corporate Programs and Planning Division is responsible for the implementation and integrity of PeopleSoft.
 - The HR Labour Relations and Wellness Programs is responsible for the development and communication of HR Policies and Procedures, and the monitoring of their compliance.
- Comptroller:
 - The Financial Services and Systems Division is responsible for exercising approval for payment pursuant to Section 33 of the *Financial Administration Act* (FAA).

Managers, supervisors, and employees:

- Under the *Delegation of HR Management Authorities*, managers and supervisors are responsible to ensure that all leave and OT activities are compliant with collective agreements and policies and procedures. Further, managers are responsible for exercising approval for the validity of OT activities pursuant to Section 34 of the FAA and the approval of leave transactions.
- Employees are responsible for the timely and accurate submission of leave and OT claims in compliance with their applicable collective agreement and policies and procedures.

¹ & ² 2009-2010 Integrated Human Resources and Business Plan

1.2 Why it's Important

Persons appointed to the core public administration must receive appropriate monetary and non-monetary compensation and be accorded leave benefits in accordance with their relevant collective agreements or terms and conditions of employment. Departments must ensure that terms and conditions are administered in an equitable, accurate, consistent, transparent and timely manner. Costs associated with errors, inappropriate administration of leave, or inappropriate application of the terms and conditions of employment, must be paid by departments.

The results of the risk-based audit planning exercise conducted in 2008-09, identified the overall risk exposure to pay and benefits as medium-high and an audit priority was directed to the management of leave and overtime. This was supported by the results of a preliminary risk survey conducted in 2006-07 in the area of pay and benefits which indicated that management of leave and overtime was deemed to be a high operational risk.

Public Safety Canada administers leave and overtime for approximately 1000 employees. In 2008-09, approximately 30,000 days of leave were taken by employees and actual overtime expenditures were \$1.9M, representing approximately 2% of total salary expenditures (approximately \$84M).

1.3 Audit Objective and Scope

The purpose of the audit was to assess the adequacy of the management control framework in place to effectively and efficiently support leave and OT activities and to ensure that transactions were consistently complete, valid and compliant with applicable policies, procedures and regulations.

During the past few years procedural changes were introduced to the administration of Leave, specifically the implementation of the LSS module and the revision of *The Instrument of Delegation of Human Resources Management Authorities*. Therefore, the audit period selected for leave transactions covered the period August 1, 2008 to February 28, 2009 after the changes were in place. This seven month period was accepted by management as a representative period from which to extrapolate the findings and provide an overall opinion. The audit period for OT transactions covered the period April 1, 2008 to February 28, 2009.

1.4 Audit Opinion

The management control framework in place to support leave and overtime activities, to ensure payments are correct, and to ensure compliance with applicable policies, regulations and collective agreements, was not adequate. The absence of monitoring and reporting controls based on an assessment of risk, combined with insufficient procedural guidelines, exposes the department to the risk that Leave and OT transactions are not processed appropriately.

1.5 Summary of Audit Findings

The audit found that key components of the Management Control Framework required strengthening. While the overall strategic plan, the operational business plan, and the HR plan existed and were aligned with the HR mandate, the lack of performance standards prevented an adequate assessment of capacity. Further HRD has not conducted a risk assessment of the leave and overtime environment, nor developed the associated risk mitigation strategies including monitoring and reporting requirements. As a result, HRD was limited in their ability to provide assurance of compliance, and when necessary, to make adjustments for lessons learned.

Limited operational procedures existed to guide the Compensation Advisors in processing leave and OT transactions, which contributed to a material number of errors with regard to OT transactions including, incorrect posting of hours into the system, double entry for hours in the same period, misinterpretation of Collective Agreement conversion rate factors, and inappropriate exercising of Section 34 of the *Financial Administration Act*. Generally, the dollar value of these errors was material in regard to the specific OT expenditures based on a materiality guideline of 1% of the OT population's actual expenditures for the audited period. Such errors may be an indication of other qualitative impacts such as the hardship and frustration to employees caused by the subsequent recovery of any overpayment, or the potential of additional errors beyond the scope of OT transactions as many of these same procedures and controls are used in processing general payroll.

Generally, the audit found the leave credits earned, and the leave usage and respective approvals, were in compliance with applicable policies. There were no significant trends in regard to sick, vacation, or other leave taken. However, the audit noted that HRD does not perform any specific trend analysis of leave activities nor has there been any definition of what would be important to track.

1.6 Summary of Audit Recommendations

1. Under the direction of the ADM CMB, HRD should conduct a risk assessment of the HR activities specifically related to leave and OT, and identify the core controls and procedures that will mitigate the identified risks to an appropriate level.
2. Under the direction of the ADM CMB, HRD should develop measurable performance standards and define the operational requirements for monitoring and systems needs.
3. Under the direction of the ADM CMB, HRD should document the key leave and OT processes and ensure they are clearly communicated to the appropriate compensation advisors.
4. Under the direction of the ADM CMB, HRD should review and align the *Delegation of HR Management Authorities* and *The Delegation of Financial Signing Authorities Instruments*, to ensure consistency between the two authorities documents. Further, HRD should review

their processes surrounding the validation of the Financial Authorities to ensure they are compliant with the TB *Directive on Delegation of Financial Authorities for Disbursements* and the *Financial Administration Act*.

5. Under the direction of the ADM CMB, HRD should continue to strengthen communication and training of employees to ensure an understanding of the leave and OT policies and procedures.

1.7 Management Response

Management acknowledges that the leave and overtime control framework needs to be strengthened to reduce the risk of errors, especially as it pertains to overtime expenditures. In this context, management agrees with the recommendations included in this audit and work has already been initiated to ensure they can be implemented by the end of the year. Furthermore, specific actions have been taken to correct the specific errors detected during the audit.

Approved By: Rosemary Stephenson
Chief Audit Executive

2.0 Background

Public Safety Canada (PS) manages a budget of approximately \$426 million³ and has a workforce of approximately 1000 people⁴. With approximately twenty occupational groups, seven related collective agreements, and six non-unionized employee occupational groups, the management of leave and overtime (OT) can be a complex activity. Leave and OT administration is governed by various acts and regulations, policies, collective agreements, directives and guidelines.

At PS, the activities related to Leave and OT are performed by various functions:

The Corporate Management Branch (CMB):

- Human Resources Directorate (HRD):
 - The Compensation Unit (CU) is responsible for accurate and timely employee compensation for services rendered in accordance with collective agreements and established policies and procedures;
 - The Human Resources (HR) Corporate Programs and Planning Division is responsible for the implementation and integrity of the Human Resources Management System (PeopleSoft).
 - The HR Labour Relations and Wellness Programs is responsible for the development and communication of HR Policies and Procedures, and the monitoring of their compliance.
- Comptroller:
 - The Financial Services and Systems Division is responsible for exercising approval for payment pursuant to Section 33 of the *Financial Administration Act* (FAA).

Managers, supervisors, and employees:

- Under the *Delegation of HR Management Authorities*, managers and supervisors are responsible to ensure that all leave and OT activities are compliant with collective agreements and policies and procedures. Further, managers are responsible for exercising approval for the validity of OT activities pursuant to Section 34 of the FAA and the approval of leave transactions.
- Employees are responsible for the timely and accurate submission of leave and OT claims in compliance with their applicable collective agreement and policies and procedures.

These activities are supported through two separate software systems; the Regional Pay System (RPS) and PeopleSoft. These two systems currently have no interface between them to share or upload information.

³ & ⁴ 2009-2010 Integrated Human Resources and Business Plan

The RPS is a government wide compensation system administered by Public Works and Government Services Canada (PWGSC). Operational procedures for the system and reporting functionality are driven by PWGSC who also provide an oversight function on all compensation transactions; however, the ultimate accountability remains with line departments.

PeopleSoft is the departmental human resources management system for which there is a Memorandum of Understanding with Correctional Service Canada for its use, while still allowing PS to retain full ownership of its business processes and HR data. Among other types of information, it captures data leave entitlements and usage. The system automatically calculates each employees leave entitlements such as vacation and sick leave credits based on their respective collective agreements and number of years as a public servant or the relevant terms and conditions of employee if non-unionized. In July 2008, PS introduced the PeopleSoft Leave Self Serve (LSS) module which allows the employees to enter their own leave transactions and for managers to have automatic notification of transactions requiring their approval.

The following table illustrates the OT dollars and respective number of employees at year end for the last three fiscal years.

Table of Overtime (OT) \$ Actual and Total employees by Branch

Branch	2006-2007		2007-2008		2008-2009		
	OT \$ Actual ('000) ¹	Total branch employees ²	OT \$ Actual ('000) ¹	Total branch employees ²	OT \$ Actual ('000) ¹	Total branch employees ²	Branch OT %
Executive Branch (DMO, and Legal Services)	146	14	161	13	192	15	10%
Corporate Management Branch	333	165	466	188	410	210	21%
Emergency Mngt & National Security	379	223	468	277	630	344	33%
Law Enforcement & Policing	97	97	134	86	113	92	6%
Community Safety & Partnership	119	175	128	169	212	176	11%
Strategic Policy Branch	100	55	168	71	223	111	12%
Office of the Inspector General CSIS Branch	4	8	5	8	5	10	0%
Communications Branch	65	59	101	59	135	65	7%
Totals³	1,242	796	1,632	871	1,920	1,023	100%

Notes:

1. OT \$ Actuals (000): Overtime earned paid in cash and compensatory payout only
2. # of total branch employees: term and indeterminate employees only
3. For fiscal year ended 2009, OT represented 2% of salaried expenditures
4. The number of employees by branch as of March 31 for each fiscal year was provided by HRD

The following table illustrates the average number of leave days per employee for the fiscal year 2008-09.

Table of Leave by Branch for the Fiscal Year 2008-2009

Branch	Average # of days/ employee						Average total leave taken/ employee ³	Average leave not taken - Paid in Cash	Average total leave taken & paid /employee ³
	Uncertified sick leave	Certified sick leave	Vacation leave taken	Family leave taken	Compensatory leave taken in lieu of Cash OT	Other leave taken ²			
Executive Branch (DMO, and Legal Services)	2	3	13	1	2	3	25	6	30
Corporate Management Branch	6	4	16	2	1	5	34	1	35
Emergency Mngt & National Security	4	2	14	1	1	2	25	2	27
Law Enforcement & Policing	5	2	13	1	1	4	26	2	28
Community Safety & Partnership	5	2	14	2	1	5	30	2	32
Strategic Policy Branch	4	2	11	1	1	2	20	1	22
Office of the Inspector General CSIS Branch	5	3	11	2	0	2	23	2	25
Communications Branch	4	2	14	1	1	3	26	2	28

Notes:

1. This information was provided by HRD
2. Includes Sick and Regular Leave without Pay, Personal Leave Day, Volunteer Activities and One-Time Vacation Leave
3. Differences due to rounding

2.1 Audit Objective

The purpose of the audit was to assess the adequacy of the management control framework in place to effectively and efficiently support leave and OT activities and to ensure that transactions were consistently complete, valid and compliant with applicable policies, procedures and regulations.

2.2 Scope

During the past few years procedural changes were introduced to the administration of Leave, specifically the implementation of the LSS module and the revision of *The Instrument of Delegation of Human Resources Management Authorities*. Therefore, the audit period selected for leave transactions covered the period August 1, 2008 to February 28, 2009 after the changes were in place. This seven month period was accepted by management as a representative period from which to extrapolate the findings and provide an overall opinion. The audit period for OT transactions covered the period April 1, 2008 to February 28, 2009.

The elements of the management control framework that were examined included: business plans, risk management processes, roles, responsibilities, accountabilities, authorities, policies, procedures, and monitoring mechanisms.

2.3 Approach

The audit was planned and conducted in such a way as to obtain reasonable assurance that audit objectives were achieved. The audit included various tests, as considered necessary, to provide such assurance. These tests included, but were not limited to, interviews, observations, walkthroughs, review of supporting documentation, sampling of transactions and analytical reviews. The audit criteria (See Appendix A) used to develop the required audit tests were based on The Canadian Institute of Chartered Accountants "Criteria for Control" (COCO) model,

the Management Accountability Framework (MAF) and on applicable policies, legislation, regulations and collective agreements.

The audit approach involved interviews with CMB personnel and departmental staff, reviews of documentation (organization charts, roles and responsibilities, allocation of resources), and walkthroughs and flowcharting of the leave and overtime processes. Sampling techniques used to identify the transactions for testing compliance were generally based on a statistical model which allowed the audit findings to be extrapolated over the entire leave and OT population.

2.4 Audit Opinion

The management control framework in place to support leave and overtime activities, to ensure payments are correct, and to ensure compliance with applicable policies, regulations and collective agreements was not adequate. The absence of monitoring and reporting controls based on an assessment of risk, combined with insufficient procedural guidelines, exposes the department to the risk that Leave and OT transactions are not processed appropriately.

2.5 Statement of Assurance

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

2.6 Findings, Recommendations and Management Response

2.6.1 *HRD should develop performance standards and further define operational requirements for monitoring and systems needs.*

The audit expected to find defined and communicated objectives, applicable to all levels within HRD, aligned with its mandate, such as an objective to develop measurable performance standards, and to consider operating requirements, including, amongst other things, the systems and monitoring requirements for external and internal environments. Further, the audit expected that the HR plan would include information on recruitment, hiring and promotion, and identify the necessary training, tools, resources and information to support HRD employees in the discharge of their responsibilities aligned with the operational requirements and performance standards.

The audit found that generally the key components required in the overall strategic plan, the operational business plan, and the HR plan existed and were aligned with the HR mandate. Service standards were also identified which included specific collective agreement timeline requirements. However, there was no operational objective to develop measurable performance

standards. There was an operational objective to monitor and report on HRD activities however it was not defined in sufficient granularity. Without these operational objectives defined and implemented, it is difficult for HRD to measure its capacity to deliver services on a timely basis and to process transactions in compliance with policies, legislation, regulations and collective agreements. Further, while training for compensation advisors was identified and planned, it was only partially taken.

The audit also noted that a long-term operational systems strategy was not in place. Currently, there is a significant amount of duplication of effort in the recording of personal data in the PeopleSoft system and RPS as they are separate systems. This increases the inherent risk of input errors and inefficiencies, and as a result there are discrepancies in employee information between the two systems (i.e. pension dates, substantive position classification of employees). HRD has informed us that they intend to upgrade to version 8.9 of PeopleSoft by October 2010, however this will not resolve the issues. These issues will require a formal analysis to determine the long-term strategy.

2.6.2 Limited operational procedures exist to guide compensation advisors in processing leave and OT transactions.

The audit expected to find appropriate leave and OT policies and procedures to support managers and employees and to guide HRD in conducting leave and OT control activities.

The audit noted that there were limited operational procedures to guide compensation advisors in processing leave and OT transactions. The CU had developed a few ad hoc checklists and “helpful hints” for certain leave activities such as *Parental Leave* and *Calculating Leave Service Date*, however, these did not cover the main activities such as processing OT claims or updating LSS with leave data. Given the complexity and voluminous information, it is important that all leave and OT activities be supported by internal control procedures. These operational procedures would also help to ensure that compensation advisors and HR Labour Relations provide consistent guidance to managers as to when and how to challenge and monitor leave usage and complete OT submissions, 2 out of 7 managers (29% of the sample or approximately 2% of the total number of PS managers) interviewed felt advice was unclear or inconsistent.

The audit did find defined and accessible PS leave and OT policies and procedures to support managers and employees. Generally, these policies and procedures were comprehensive and aligned with TB policies and Collective Agreements. Improvements could be made to:

- clarify and simplify the OT form as employees did not always understand how to complete certain fields; and,
- identify the appropriate documentation requirements for preapproval of OT.

2.6.3 The clarity and documentation surrounding the authority, responsibility and accountability for leave and OT activities requires improvement.

The Deputy Minister has sub-delegated certain authorities, including those surrounding leave and OT, to those positions which can most effectively exercise responsibilities and be accountable for results. As such, an appropriate HR accountability framework should include: a defined and documented *Instrument of Delegation of HR Management Authorities*; roles and responsibilities; and process accountabilities to ensure that those with delegated authorities have the knowledge and tools to appropriately discharge their duties.

The audit found a comprehensive *Delegation of HR Management Authorities (DHMA)* however it was not fully aligned with the *Delegation of Financial Signing Authorities Instruments (DFSA)*, creating inconsistency in regard to financial HR expenditures. The DFSA requires section 32 of the FAA, to be exercised only by those with the delegated financial authority; however the DHMA allows a supervisor who may not have the delegated financial authority, to perform certain pre-approvals representing the exercising of section 32 of the FAA. .

Further there was no documentation of roles and responsibilities for the various units within HRD including the CU. Although job descriptions exist for compensation advisors, they are not a substitute for operational level roles and responsibilities which help employees understand what they are responsible for, particularly in light of the recent process changes.

Generally, there was sufficient segregation of duties in regard to the tasks performed by HRD and the system access granted to them; with the exception of the RPS user access and in particular the “verifier” access. This access is a key control for validating and approving a compensatory OT payment before its routing for payment to the Financial Services and Systems Division. However, this access was shared across multiple compensation advisors. While the audit found no misuse of this authority, sharing “verifier” access prevents the CU from monitoring individual performance and increases the difficulty in monitoring for unusual or inappropriate transactions.

2.6.4 HRD has not conducted a risk assessment of the leave and overtime environment, nor developed the associated risk mitigation strategies including monitoring and reporting requirements.

The audit expected to find a risk assessment had been conducted to identify the key HRD processes, their inherent risks and mitigating activities. The results of this risk assessment would establish the baseline for internal control procedures, and the monitoring and reporting requirements which would ensure that all key activities are adequately reviewed to allow management the ability to track compliance, develop lessons learned and provide effective oversight and decision making.

The audit noted that neither a risk assessment nor an overall monitoring framework had been completed and that limited monitoring was performed on transactions or on fundamental internal controls. Further, the monitoring done was not consistently documented with sufficient detail to identify specific areas of weakness and to develop action plans to improve the situation. For example, there was no monitoring done on the number or nature of incorrect OT form submissions, or recurring interpretation errors. Also, the audit found 1 out of 7 (14%) managers did not correctly interpret the internal *Sick Leave Policy* which creates an inequitable environment. The audit also noted that HRD does not perform any specific trend analysis of leave activities nor has there been any definition of what would be important to track. While the audit did not find any significant trends in regard to unusual leave activity, it is important to analyze leave activity at a departmental level as one indicator to help understand the health of the organization and to identify potential issues that could impact the achievement of objectives.

Further the identification of information that needs to be collected, reported on and to whom, within designated time periods was not done. As there were no established performance standards to monitor, very little management information was collected. There were limited management reporting requirements and only ad hoc informal reports generated to support HRD such as PWGSC pay reports, and PWGSC statistical summaries. However, these were not useful for performing trend analysis, validating compliance, or for management oversight and decision making.

Specifically with regard to the implementation of the PeopleSoft LSS module, employees interviewed were generally satisfied with the information available and its reporting ability as it provided timelier and readily accessible information for their day-to-day management of leave usage.

2.6.5 Leave transactions are generally compliant.

Operational control testing focused on ensuring that all valid leave transactions were accurately entered into the system on a timely basis and were supported by appropriate documentation and approval. Generally, the audit found the leave credits earned, and the leave usage and respective approvals, were compliant. There were no significant trends in regard to sick, vacation, or other leave taken. However, in 8 out of a sample of 88 (9%) transactions, the appropriate leave code was not used within LSS.

There are certain leave transactions that only CU has the ability to enter into LSS, such as *Leave Without Pay* (LWOP). It was expected that there would be appropriate communication between compensation advisors, and the employee and their manager when adjustments were made by CU on the leave form submitted by the employee. However the audit found there was limited documentation and communication. This communication would provide evidence of acknowledgement by the employee and their manager in the event of future disputes as well as prevent potential future errors as both would be made aware of how to apply specific clauses of the Collective Agreement such as statutory holidays.

2.6.6 The accuracy, approval and documentation of OT transactions require improvement.

Accuracy:

On a monthly basis, an employee who worked OT is required to submit an approved OT form including the hours worked, the code indicating the reason for the OT, and whether the OT should be paid in cash or “banked” as compensatory time off. The employee and manager are responsible for validating this information and ensuring compliance with the applicable collective agreement or policy. The manager is then responsible for approving the OT and forwarding the signed OT form to the CU. Once the OT form is received in the CU, the team has several levels of review to ensure; the validity and accuracy of the claim, compliance with the CA clause, and no duplication of payment. However, the audit found that errors are not consistently caught by the CU validation process. The following errors were noted in the various audit tests applied to a sample of OT transactions:

- 7 out of 35 (20%) compensatory OT claims had errors including incorrect posting of hours into the system and double entry for hours in the same period. These errors were the result of insufficient review of information, unsigned OT forms, and lost forms.
- 6 out of 35 (17%) compensatory OT claims had no appropriate compensation advisor signature or stamp to indicate that it had been processed. This control is intended to help prevent double payments.
- 11 out of 105 (10%) cash OT claims had errors including the inappropriate interpretation of Collective Agreement conversion rate factors, incorrect posting of hours or annual salary into RPS, or double payment for hours in the same period.
- 6 out of 154 (4%) employees, for whom a mandatory payout of their remaining banked OT hours was required, were missed.
- Based on trend analysis of the total population of cash OT payments (approximately 2000 claims), 6 claims were incorrectly paid to “acting” Executives and other positions not entitled to OT or were incorrectly calculated.

Generally, the dollar value of these errors was material in regard to the specific OT expenditures, based on a materiality guideline⁵ of 1% of the OT population’s actual

⁵ Where appropriate the financial impact of an error has been calculated by extrapolating the dollar value of the errors found within a sample, to the entire population from which the sample was derived. A population has been defined as a group of transactions with common characteristics. For example all compensatory OT claims were considered a population for purposes of a specific audit test. The extrapolated dollar value of errors was then compared to the dollar value of 1% of this defined population, of compensatory OT claims, which was considered the materiality threshold. This threshold establishes the management risk tolerance level, above which management and external users of this report would reassess their operational practices and decisions. Extrapolated errors greater than the 1% were considered material errors. The department has not set its materiality threshold and the Treasury Board Accounting Standard on materiality has determined quantitative materiality to range between .5% and 2% of total expenses.

expenditures for the audited period. Such errors may be an indication of other qualitative impacts such as the hardship and frustration to employees caused by the subsequent recovery of any overpayment or the potential of additional errors beyond the scope of the OT transactions as many of these same procedures and controls are used in processing general payroll.

The following table shows the absolute value of errors detected during the audit for the fiscal year 2008-09.

Table of the \$ value of errors found within the various audit tests

Audit Test	Total \$ value of overpayment errors to employees	Total \$ value of underpayment errors to employees	Lowest individual \$ error: Overpaid/ (Underpaid)	Highest individual \$ error: Overpaid/ (Underpaid)
Within sample populations - Validation of Compensatory OT claims against the collective agreement	3,852	1,196	93	3,028
Within sample populations - Validation of Cash OT claims against the collective agreements	483	945	(10)	(464)
Within total populations - Trend analysis for unusual Cash OT claims and Compensatory OT Payout	3,976	-	312	1,300
Totals	8,311	2,141		

It should be noted that Internal Audit has informed HRD of the errors found and they are in the process of reclaiming overpayments and compensating for under payments.

Approval:

Pre-approval of OT activities:

The internal OT Policy, which is aligned with the various Collective Agreements, requires the manager to plan for OT to ensure sufficient funding is available, and that OT is justified, pre-approved and fairly allocated. However the policy does not provide any guidance on the appropriate method of documentation for these requirements. The audit found that 13 out of a sample of 22 (60%) employees did not have evidence of pre-approval as the auditors were told it was done verbally. Further, the individual Responsibility Centre Manager’s salary budget was generally not allocated down to the OT expenditure level within the financial planning system or to the appropriate operating level, we found 4 out of a sample of 8 (50%) managers did not know if they had sufficient funds in their budget for the OT to be worked before approving the OT. While those interviewed said they did informally plan for workload issues, 13 out of a sample of 22 (60%) employees believed that their OT was of an ad hoc nature and therefore not controllable to any great extent. As per the OT table, there are two branches which incur over 54% of the total value of OT expenditures. Given the nature of the PS mandate which must routinely deal with unplanned emergency activities it is a recognized challenge to plan for OT.

Section 34 of the Financial Administration Act (FAA):

The audit expected to find that each transaction resulting in a cash payment or expenditure accrual would have an appropriate Section 34, which ensures the appropriate performance of the OT, as required by the FAA; however, the following errors were noted in the various audit tests applied to a sample of OT transactions:

- OT pay adjustments, due to an incorrect calculation, did not have evidence of section 34 confirming the validity and accuracy of the new amounts.
- Mandatory Collective Agreement payments such as the annual pay-out in cash for unused banked OT hours did not have evidence of Section 34 confirming the validity and accuracy of the amounts. There was no clarity in the interpretation of the FAA as to accountability for these calculated amounts, the manager who approved the initial OT or CU.
- 3 out of 105 (3%) transactions were approved by unauthorized managers.
- 2 out of 105 (2%) transactions were specific to employees seconded to another department where no one from PS exercised section 34 of the FAA for the payment.

Overall, it was noted that compensation advisors do not perform any validation of the signature or authority level of the person approving the OT. Further, 5 out of 21 (24%) employees interviewed submit their own OT forms directly to the CU after obtaining their manager's signature. Allowing employees to submit their OT claim directly to the CU creates a potential risk of the employee altering the OT form for unapproved hours. Given this is a key control to prevent unauthorized payments, the CU should establish monitoring controls to assess compliance and re-enforce procedures with managers.

Documentation:

As evidence of due diligence and to facilitate management decisions, the audit expected to find sufficient documentation for OT transactions. However, throughout the review of audit evidence, it was noted that compensation advisors were not consistently documenting their analysis, calculations, discussions with employees, or explanations for adjustments. For the purposes of the audit, the CU was able to reconstruct the payment calculation trail; however, it was difficult as some cases had no evidence of why or how the calculation was made. It was evident, based on discussions with the compensation advisors and the review of available correspondence in the employee files, that the compensation advisors were finding some of the miscalculations and making the necessary adjustments, however without more formal documentation and a tracking mechanism, the ability to develop appropriate corrective measures is limited as is the ability to effectively review and monitor.

Recommendations:

1. Under the direction of the ADM CMB, HRD should conduct a risk assessment of the HR activities specifically related to leave and OT, and identify the core controls and procedures that will mitigate the identified risks to an appropriate level. These core controls and procedures should include:

- the identification of monitoring and reporting requirements which will provide timely and appropriate evidence of compliance and allow corrective actions to be made when necessary. This would include monitoring the implementation of the PS OT policy.
- appropriate, sufficient and documented policies and procedures to guide CU in processing leave and OT transactions so as to mitigate risks such as the duplication of payments and inappropriate system access;
- the clarity around the required documentation to support analysis of OT calculations and adjustments, and lessons learned; and,
- clarity around the procedures and documentation required for pre-approval of OT and completion of the OT form.

Management Action Plan	Completion Date
Management agrees with the recommendation.	
The following steps will be actioned by the Human Resource Directorate:	
Comprehensive risk assessment for leave and OT will be conducted to determine the appropriate mitigation controls and procedures. Management has also volunteered to have compensation services be part of the internal control framework pilot project. Initially, the actions below will be taken:	December 2010
<ul style="list-style-type: none"> ▪ To hire a new compensation Technical Advisor position (proposed AS-03) within existing FTE complement, which duties will include developing monitoring and reporting requirements. 	October 2010
<ul style="list-style-type: none"> ▪ Operational procedures will be established for compensation advisors for managing OT and leave, as well as verification procedures. 	September 2010
<ul style="list-style-type: none"> ▪ Track when HRMS supervisor authority was granted. 	July 2010
<ul style="list-style-type: none"> ▪ Operational procedures to be established for compensation advisors to address required documentation to support analysis of OT calculations. 	September 2010
<ul style="list-style-type: none"> ▪ OT Policy reviewed to reflect requirement to document OT pre-approval. 	September 2010
<ul style="list-style-type: none"> ▪ Training on OT requirement for managers. 	September 2010
<ul style="list-style-type: none"> ▪ Develop simplified guidelines on completion of OT form for employees and managers. 	October 2010

2. Under the direction of the ADM CMB, HRD should develop measurable performance standards and define the operational requirements for monitoring and systems needs.

Management Action Plan	Completion Date
Management agrees with the recommendation.	
The following steps will be actioned by the Human Resource Directorate:	
Development of performance standards.	December 2010
Monitoring procedures to be established.	December 2010

- Under the direction of the ADM CMB, HRD should document the key leave and OT processes and ensure they are clearly communicated to the appropriate compensation advisors.

Management Action Plan	Completion Date
Management agrees with the recommendation.	
The following steps will be actioned by the Human Resource Directorate:	
Prepare guidelines for compensation staff on leave and OT processes.	November 2010

- Under the direction of the ADM CMB, HRD should review and align the *Delegation of HR Management Authorities* and *The Delegation of Financial Signing Authorities Instruments*, to ensure consistency between the two authorities documents. Further, HRD should review their processes surrounding the validation of the Financial Authorities to ensure they are compliant with the TB *Directive on Delegation of Financial Authorities for Disbursements* and the *Financial Administration Act*.

Management Action Plan	Completion Date
Management agrees with the recommendation.	
The following steps will be actioned by the Human Resource Directorate:	
Review Delegation of HR Management Authorities with a view to ensure alignment with financial signing authorities.	July 2010
Provide access to compensation advisors to the appropriate financial signing authorities for signature verification.	July 2010

- Under the direction of the ADM CMB, HRD should continue to strengthen the communication and training processes with PS employees to ensure an understanding of leave and OT policies and procedures.

Management Action Plan	Completion Date
Management agrees with the recommendation.	
The following steps will be actioned by the Human Resource Directorate:	
Develop communications tools on leave and OT procedures for managers and employees.	Ongoing

Appendix A – Audit Criteria

The following general audit criteria provided the framework for the audit testing:

- HRD's strategic direction is clearly defined, effectively communicated, and, aligned with its mandate.
- HRD has a sufficient business/operating plan which includes ongoing monitoring of the PS environment to allow for timely change management.
- HRD has clear and comprehensive policies and procedures for all leave and overtime activities. Included in these procedures is a formal review and update process of the policies and procedures.
- HRD has a comprehensive Human Resource (HR) plan that is aligned with strategic and business planning.
- Authority, responsibility and accountability related to leave and overtime activities are clear and communicated.
- HRD has a comprehensive, and documented risk-based assessment of the leave and overtime environment, so as to identify the risks that may preclude the achievement of its objectives and the respective risk mitigation strategies.
- Sufficient and relevant information has been identified and communicated in a timely manner to the appropriate PS employees, enabling them to perform their assigned responsibilities.
- Leave and overtime transactions are complete, consistent, accurate, valid, and compliant with all applicable policies.

Appendix B – Audit Scope Specifics

Leave activities examined:

- Leave with pay (See Appendix A for list of types included in scope), as prescribed by the relevant authorities, requested, granted and denied through Leave Self Service (LSS), as well as any pertaining adjustment to the balances recorded in HRMS (including compensatory leave in lieu of overtime payment);
- Leave without pay such as granted leave without pay, absences for maternity, parental and other reasons (See Appendix B for list of types included in scope). The audit will focus on the appropriate recording of the period of time as opposed to the dollar value compensation;
- Leave cash-outs, specifically the non-monetary overtime, either requested by the employee on a voluntary basis or performed by the CBD to comply with the requirements of the relevant authorities.

Of particular note, the following activities were excluded from the scope of the audit:

- All transactions being processed through the Memorandum of Understanding with the PS agencies (Office of the Correctional Investigator, Commission for Public Complaints Against the RCMP, and RCMP External Review Committee);
- All carryover entitlement balances for those employees who were in place at the beginning of the fiscal year 2008-09. For those new employees transferring from other departments, the carryover balances will be confirmed against the transfer documents provided by the other applicable department to attest to accuracy of the input and reasonableness of the balances;
- All tombstone personal data such as classification, service dates, etc. The audit will reconcile for consistency only, the information maintained within the Regional Pay System (RPS) and Human Resource Management System (HRMS);
- All other compensation activities, such as “Standby Pay”, retroactive pay adjustments, pension, vacation premiums in lieu of vacation, and allowances for leave (such as maternity and parental leave);
- All operational IT continuity plans surrounding the HRMS and RPS systems (i.e. the ongoing maintenance, security and physical management, technical monitoring).

Appendix C – Types of leave with pay included in audit scope:

(List includes those available within the system, but not limited to the following)*

- Vacation
- Sick uncertified
- Sick certified
- Personal leave
- Authorized Travel in Conjunction with Foreign Service
- Compensatory Leave Used
- Exceptional Leave with Pay for Executives
- Family Related Leave (Adoption, appointments, Birth, Illness in Family, Marriage, Other)
- Foreign Service Leave Used
- Foreign Service Transportation Expense Benefit
- Foreign Service Post Leave/Option-Used
- Furlough
- Interpretation Leave
- Lieu Days Used
- Management Sick Leave
- Maternity-related Reassignment or Leave
- One-Time Vacation Leave Entitlement – Used
- Parliamentary Leave
- Personal Leave Bereavement
- Other Paid Leave Court
- Other Paid Leave Injury on duty
- Other Paid Leave Military
- Other Paid Leave Other
- Other Paid Leave Personnel selection
- Other Paid Leave Special Leave (HP group)
- Other Paid Leave Special Leave Travel (Isolated Post Allowance)
- Other Paid Leave Union
- Other Paid Leave-Examination, Career & Professional Development
- Travel Status Leave-Used
- Volunteer Activities leave
- Some types of leave, although available in the system, may not be applicable to PS.

Appendix D – Types of leave without pay included in audit scope:

(List includes those available for use in PS but not limited to the following)

- Sick leave without pay
- Leave without pay other
- Maternity leave without pay
- Parental leave without pay
- Leave without pay for the care of immediate family
- Leave without pay for family related responsibilities
- Leave without pay for personal needs
- Leave without pay for relocation of spouse
- Education leave without pay