Follow-up Audit Report
Pay and Benefits

March 2007

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Executive Summary

The follow-up audit of Pay and Benefits was carried out as per the approved 2006-07 Audit and Evaluation Plan. The follow-up assessed the extent to which the National Capital Region (NCR) Compensation Services Section of the HR Branch and the Human Resources Directorate of the Ontario Regional Office had implemented the planned actions arising from the March 31, 2003 internal audit report for four specific activities: pay and benefits, leave, provision of information and pay equity. The auditors visited the Compensation Services Section of the HR Branch in the NCR. An on-site visit to the Ontario Region was not conducted.

The 2003 audit noted weaknesses with the standardization and consistency of operating procedures which contributed to calculation errors and a deficiency in file documentation. The audit found errors in the calculation of extra duty and acting pay. Also, several cases were noted where sick leave credits were being accrued when employees were ineligible resulting in an overstatement of leave balances.

Management responded by establishing a Compensation Monitoring Program under the responsibility of the Manager, Compensation Policy and Monitoring in the Human Resources Branch NCR. This follow-up audit tested a sample of pay calculations and found them to be accurate. Peer reviews have also been instituted to strengthen monitoring and further reduce errors.

In conclusion, the recommendations of the 2003 audit have been largely addressed and we recommend that HRB consider the following:

1. The HR Branch should continue its efforts to enhance its advisory role and take a formalized approach to ensure standardized operating procedures are applied across all regional offices and NCR HQ offices.
2. The HR Branch should reassess the non-mandatory requirement of the various calculation tools.
3. All Compensation Advisors should be reminded to ensure employee files contain adequate documentation to include calculations and checklists for each type of pay and benefit activity.
4. The Compensation Monitoring Program should ensure that coverage of HQ and regional pay and benefits units provide assurance that transactions are processed accurately, in a timely fashion and in accordance with relevant agreements, guidelines and policies.
1. Background

In fiscal year 2002-03, an audit was conducted of two Pay and Compensation units of Industry Canada – the Compensation, Training and Management Services unit of the National Capital Region (NCR) and the Human Resources Directorate of the Ontario Regional Office. The fieldwork was performed during the months of October and November 2002 and a final report was issued on March 31, 2003.

The objective of the audit was to test pay transactions in each major activity of these two Pay and Compensation units to determine whether the transactions had been processed accurately, in a timely fashion and in accordance with the relevant agreements, guidelines and policies. The audit focused on five major elements including pay and benefits, leave, provision of information, pay equity and compensation management.

The initial audit concluded the following as it related to each of the activities/elements examined:

i) pay and benefits – in the NCR, while there was evidence that pay input documents were independently verified and certified, the effectiveness of this process was questionable given the high incidence of errors found (i.e. three of twenty transactions were incorrectly calculated) resulting in an over/under payment of extra duty pay. There was also no evidence of approval found in two of 20 acting pay transactions. In the Ontario Region, pay input transactions were not independently verified and certified and miscalculations were found in the transactions examined. Also, two extra duty pay calculations were not approved. In both regions, pay files did not generally contain templates for making calculations nor were there any documented procedures for making these calculations. Several files did not document how calculations were made or contained hand-written notes in the margins of documents;

ii) leave – in the NCR, in examining leave without pay (LWOP) transactions there was one case of an underpayment of the Employment Insurance (EI) top up and, in two cases, sick leave credits had accrued when employees were ineligible. In the Ontario Region, LWOP was often not processed on a timely basis, an overpayment had remained uncollected for 11 months and evidence of approved sick leave was often missing. Sick leave credits were also automatically accruing when employees were ineligible;

iii) provision of information – In the NCR, information provided to clients was accurate and timely. In the Ontario Region, however, significant delays were noted in pension recipients receiving required documentation (i.e. letters, severance payments, annuities and vacation pay);

iv) pay equity – In the NCR, reconciliations of amounts between PWGSC and Industry Canada records were incomplete and showed unresolved discrepancies. The amounts generated by the PWGSC pay system were found to be correct and the payments were accurate. In the Ontario Region, it was well behind in its pay equity payments and 10% of payments had not been processed. Calculations were also not subject to a peer review prior to the cheques being issued; and
v) compensation management – pay transactions in both regions were found to comply with the requirements of Sections 33 (payment authority) and 34 (spending authority) of the Financial Administration Act. The audit concluded that the management framework for compensation management had generally met the needs of the organization and was generally effective, efficient and economic.

The audit findings, conclusions and recommendations of the audit were accepted by both Offices.
2. **Objective of the Follow-up Audit**

The objective of the follow-up of the Pay and Benefits audit is to assess the extent to which Pay and Benefits management have made progress in implementing their intended course of action arising from the March 31, 2003 audit recommendations. The audit assessed the effectiveness of the actions implemented by the Pay and Compensation units in both the NCR and the Ontario Region to address the issues raised in the audit report.

3. **Approach and Methodology**

In executing the follow-up audit, the Audit Team took the following actions:

- Issued follow-up notification letters to the Manager, Compensation Policy and Monitoring, Human Resources Branch (NCR) and the Director, Human Resources in the Ontario Region;
- Ensured the proposed actions in the Audit Report dated March 31, 2003 were still relevant;
- Developed a follow-up questionnaire aligning the Pay and Benefits management responses and proposed actions for both regions;
- Distributed follow-up questionnaires to Pay and Benefits management in both regions;
- Obtained and reviewed key documentation to assess the degree to which the proposed actions have been implemented;
- Interviewed the Manager, Compensation Policy and Monitoring (HQ) and the Manager, Compensation Services for the NCR. Held telephone conversations with the Director Human Resources and Manager, Compensation and Benefits for the Ontario Region;
- Obtained a listing of employees in the NCR to analyze the pay and benefits population and select, on a sample basis, employee files;
- Selected a random sample of three to four files for each Compensation and Benefits activity in the NCR to ensure that the recommendations had been fully implemented. The sample related to files covering the period January 2006 to March 2007; and
- Communicated our findings on the results of the follow-up audit with the Manager, Compensation Policy and Monitoring (HR Branch), the Manager, Compensation Services for the NCR and, in the Ontario Region, the Director, Human Resources and the Manager, Compensations and Benefits.
4. Detailed Follow-Up Audit Findings

The following summarizes the actions developed by the Compensation Services Section in the National Capital Region (NCR) and the Human Resources Directorate of the Ontario Region to address the recommendations raised in the March 31, 2003 audit report and the current status of their implementation.

4.1 Pay and Benefits

4.1.1 Basic Pay and Benefits

2003 Initial Recommendations and Management Response

A) We recommend that the Director, Compensation Training and Management Services implement more standardized operating procedures. Templates or worksheets may encourage consistent application of required calculations. This would provide a requisite audit trail of how payouts are determined, in addition to preventing incorrect calculations.

B) Further, the completeness of documentation filed would be improved with an attached file checklist of required documents.

C) Headquarters should enhance their advisory role and ensure that these standardized operating procedures are applied consistently across all Regions.

Management Response: The Human Resources Branch will develop file documentation standards and this element is included within its new IC Compensation Monitoring Program to be launched in Fall 2003. Ontario Region has developed some manual templates in the interim that are currently in use.

We support the implementation of automated calculation templates; given the unavailability of funds for internal development we will gather and promote the use of existing IC templates and will be consulting with TBS, PWGSC or other departments to obtain other existing templates.

Findings for National Capital Region

A) This recommendation has been substantially implemented

A number of calculation tools were implemented. One was developed by the NCR for vacation, and others by Treasury Board (found on the Virtual Pay Website), for leave such as leave with income averaging (LIA) and pre-retirement transition leave. These tools encourage consistency in carrying out the required calculations. The utilization of these tools, however, is not mandatory, rather is left to the discretion of the employee. Our findings indicated that these tools are not always being used.
A Peer Review system has been implemented to ensure that the calculations for basic pay and benefits are correct. A stamp has been developed to show the signatures of both compensation advisors involved in the process, the date the transaction was processed, the amount of the cheque issued and the date the information was entered into the PeopleSoft system. Our tests indicated that a stamp was found on each of the four audited files. There were no errors found on any of the pay and benefits calculations in the tested files.

B) This recommendation has been substantially implemented

The Principal Compensation Advisor developed a number of checklists to ensure specific processes are respected and followed for each compensation and benefits case and that documentation is on file. These checklists are designed to ensure consistency and control and ensure files are complete; however, they are not being used by all employees. Also, similar to the previous findings, our tests showed that in the case of the files examined, one employee file did not contain signed documentation on the employee’s choice of PSHCP coverage.

C) This recommendation has been partially implemented

Standardized procedures are encouraged but not on a formalized basis. The Manager, Compensation Policy and Monitoring, following reviews undertaken as part of the Compensation Monitoring Program, discusses the findings in the monthly meetings held with pay supervisors in the NCR. Monthly conference calls are also held with the regional offices and these issues are discussed. The Manager indicated that procedures in the region are not always standardized and sometimes procedures do differ from one region to the next. Bulletins are not issued to the regions from the HR Branch.

Findings for Ontario Region

A) This recommendation has been partially implemented

This Region does not use a template to calculate basic pay and benefit payments. Compensation and Benefit Advisors are verbally advised to show their manual calculations of basic pay transactions. For employees on leave with income averaging, the calculation tool that is used in NCR is employed.

Peer reviews of the work carried out by Compensation Advisors to calculate pay transactions are also undertaken. A standardized stamp is used to provide evidence of this peer review.

All HR files were re-organized into file folders and a new labelling system was introduced to further improve file organization. Management uses e-mail for communicating and informing Compensation Advisors of continually changing operating procedures.
B)  *This recommendation has been fully implemented*

The Ontario Region advises that a checklist can be found on employees’ files for basic pay and benefits to ensure all required documentation is on file.

### 4.1.2  Acting Pay

#### 2003 Initial Recommendation and Management Response

*The Director, Compensation, Training and Management should ensure that employee files contain support for acting pay calculations and authorizations for acting pay transactions.*

**Management Response:** *The issue of file documentation for all types of transactions is a key component of our new IC Compensation Monitoring Program (Fall 2003). Guidelines and procedures will be published as required based on our findings.*

#### Findings for National Capital Region

*This recommendation has been substantially implemented*

There is a specific procedure in place to approve acting pay. For periods of less than four months, the Staffing Section forwards an e-mail to the Compensation Advisor following confirmation received from the employee’s manager. For approvals extending beyond four months, the Staffing Section provides a letter to the Compensation Advisor. In the sample of files tested, all acting pay was properly authorized. In one particular case, however, in which acting pay had been extended beyond four months, an e-mail instead of a letter had been received from the Staffing Section.

Currently an automated calculation tool is not in place for acting pay. It is anticipated that a tool will be developed in conjunction with a number of other government departments in 2007-2008. Acting pay calculations are reasonably simple to perform and given the three levels of peer review, internal controls are adequate to avoid errors. While no errors were found in the file review conducted, detailed calculations were not documented.

#### Findings for Ontario Region

*This recommendation has been partially implemented*

The Ontario region has not developed a template to calculate acting pay. The Region is looking to HR Branch to take the lead in creating templates. Compensation Advisors are advised to include a manual calculation of the transaction in the file. The Region believes there are sufficient checks and balances via the verification process to detect errors.
4.1.3 Extra Duty Pay

2003 Initial Recommendations and Management Response

A) The Director, Compensation, Training and Management Services should develop and implement overtime request forms which minimize the amount of manual calculations.

B) The Director should also encourage the application of these tools in all regions.

C) The Director, Compensation, Training and Management Services and the regional directors of human resources should reiterate to the pay advisors the importance of performing a thorough peer review, especially in the case of overtime transactions.

Management Response: We support the implementation of automated calculation templates; given the unavailability of funds for internal development we will gather and promote the use of existing IC templates and will be consulting with TBS, PWGSC or other departments to obtain other existing templates. The performance of peer review has, for years, been a mandatory requirement; verification of adherence to this process is included in the new IC Compensation Monitoring Program (Fall 2003).

Findings for National Capital Region

A & C) These recommendations have been fully implemented

A standardized process is used in NCR region to calculate extra duty pay. The Extra Duty Pay/Shift Work Report and Authorization form was designed to minimize the amount of manual calculations required. This form is completed by the employee and the hours claimed are approved by the manager.

The information from the Extra Duty Pay/Shift Work Report and Authorization form is entered into the PWGSC pay system by the Compensation Advisor. To ensure information is accurately recorded, two reviews of the number of hours claimed by the employee and the applicable salary rate are performed. The Compensation Advisors check the addition and calculations and peer review is conducted by another Advisor. We observed check marks and the use of a stamp to verify the peer review in our sample of selected files. The tests showed that overtime is properly calculated and the overtime form was on file.

B) This recommendation has not been implemented

There was no specific formal action taken to encourage the application of these tools in the regions. Standardized procedures are encouraged but not formally required. The Manager, Compensation Policy and Monitoring, following reviews undertaken as part of the Compensation Monitoring Program, discusses the findings with regional offices in an effort to resolve issues in a consistent manner. It is recognized that procedures may vary from one region to the next. Bulletins are not issued to the regions from the HR Branch.
Findings for Ontario Region

A & C) These recommendations have been fully implemented

The Ontario Region uses a process similar to that used by the NCR for the management of extra duty pay. The Extra Duty Pay/Shift Work Report and Authorization form and individual personal history cards are used at the time of verification to ensure that the proper salary and total number of hours are paid. Overtime is processed only if duly authorized by management. A clear audit procedure was established and shared with all Compensation Advisors by e-mail. Also, a peer review takes place to ensure that all overtime paid is supported by the Extra Duty Pay/Shift Work Report and Authorization form, salary calculations are correct and the number of hours claimed are confirmed.

4.2 Leave

4.2.1 Leave Without Pay

2003 Initial Recommendations and Management Response

A) The Director, Compensation, Training and Management Services should investigate the cost-effectiveness of making changes to the PeopleSoft system so that it does not accrue sick leave benefits while a person is on LWOP.

B) The Director, Compensation, Training and Management Services and the regional directors of Human Resources should also reiterate to the supervisors the importance of prompt notification of the pay advisor when an employee is taking LWOP.

C) LWOP transactions involving complex calculations, such as EI top up, should be reviewed by a Manager to ensure they are accurate.

Management Response: Responsibility for approving sick leave rests with the employee’s manager; terms and conditions are clearly outlined in all collective agreements which are posted on the HRB intranet site. Approximately 85-90% of “paid” leave transactions are now processed via the Leave Self-service functionality and as such, there are no paper documents on employee files. As “leave without pay” transactions may not be processed on-line, a signed Leave Application form is placed on the employee file. While the “Leave Year-end Process” is now fully automated, a copy of the statement is placed on individual employee files.

At the time of the audit, IC was utilizing HRMS version 7.13 and there was in fact a “bug” associated with leave accruals; IC has been utilizing HRMS version 7.5 since December 2, 2002 and this has resolved the accrual issue. A Leave Enhancement project currently being managed by the Government of Canada (GC) HRMS Shared System Cluster will further strengthen the delivered version 8 functionality and, IC’s target date for upgrading to version 8 is April 2004. Notwithstanding, the IC-HRMS team monitors data integrity and provides HR Advisors and Compensation Advisors with exception reports on an ongoing basis.

The Director, Compensation, Training and Management Services, the Manager Compensation and Benefits Division, Regional directors of Human Resources and Compensation Advisors continue to make
every effort to inform supervisors and employees of the importance of prompt notification when an employee is taking LWOP. LWOP transactions involving complex calculations, such as EI top up, undergo a first level of review through peer verification; questions and issues of concerns are raised with the Compensation supervisor/manager.

Findings for National Capital Region

A) This recommendation has been fully implemented

An updated version of PeopleSoft system (HRMS version 8.0) has been installed that ensures leave credits do not accrue while an employee is in a LWOP situation. A unique code is used for LWOP and a period of time is specified precluding any leave credits from accruing during the noted time-frame.

B) This recommendation is not relevant to the NCR

This recommendation applied only to the Ontario Region.

C) This recommendation has been partially implemented

The Compensation Advisors generally use one of two different worksheets to calculate maternity leave allocations and one of three different worksheets to calculate the EI top up. These tools are used by the majority of employees however, in some cases; the calculations are still being done manually. Peer review is carried out on all calculations and there was appropriate evidence of this process on each of the files examined. Due to time constraints and workload issues, the peer review of the EI top up calculation is done by another Compensation Advisor rather than the manager. In two cases examined, one EI top up was properly calculated but, in the other, it was not possible to validate the calculation given the inadequacy of the documentation on file.

Findings for Ontario Region

A) This recommendation has been fully implemented

The same new version of PeopleSoft system has been installed in the Ontario Region to preclude leave credits from accruing in a LWOP situation.

B) This recommendation has been fully implemented

The HR Director, in meetings with the Regional Management Team, raised the issue of management leave without pay to remind management to notify Compensation and Benefits staff promptly of leave situations. A number of procedures have been implemented to ensure that Compensation and Benefits staff are promptly notified of leave situations. For example, a Monthly Leave without Pay Report has been developed to help manage complicated LWOP situations. The report includes: employee name, reason for leave, period of leave, approved leave form and notes. This report supports complicated LWOP situations by providing a history of the situation. Also, working in
partnership with the managers, there is a regular follow-up every three months to certify indefinite periods of leave.

C) This recommendation has been fully implemented

The Manager of Compensation and Benefits is frequently involved in complex LWOP situations, to assist in employee counselling and to provide advice and guidance to Compensation Advisors. A monthly Leave without Pay Report has also been introduced to capture these situations.

4.2.2 Terminations

2003 Initial Recommendations and Management Response

A) We recommend that the Director, Compensation, Training and Management Services implement, where necessary, a review process along with the use of templates and checklists. Doing so would better substantiate and support employer calculations and documentation. In addition to improved accuracy and completeness, the efficiency and effectiveness of operations would be improved. File documentation checklists should include important documents such as ROE’s.

B) The Director should also encourage the consistent application of these tools in all regions.

C) We also recommend that the Director, Compensation, Training and Management Services implement a review of the automated calculation of sick leave benefits to ensure they are only accrued when earned. If an erroneous formula is discovered, adjustment of employee balances should be considered.

Management Response: The implementation of the new IC Compensation Monitoring Program (Fall 2003) will address issues of consistent use of existing and new templates and checklists.

As noted above, the issue of leave accruals has been rectified through the implementation of HRMS version 7.5 and, the IC-HRMS team monitors data integrity and provides HR Advisors and Compensation Advisors with exception reports on an ongoing basis.

Findings for National Capital Region

A) This recommendation has been partially implemented

The Principal Compensation Advisor created many checklists for termination cases including retirement, resignations and students struck off strength. These checklists outline the procedures to follow when these cases occur. Detailed on the checklists are the appropriate documentation that needs to be completed, the required online pay information and the PeopleSoft information to enter. Although these tools are effective, they are not always used in cases handled by experienced Compensation Advisors. While we were advised that the Record of Employment (ROE) is on file, except in the case of student files, our tests indicated that ROEs were not found in the four files examined.
B) *This recommendation has not been implemented*

Although no formalized action has been taken to encourage the use of available tools in the regions, it is discussed with the regions after reviews are carried out as part of the Compensation Monitoring Program by the Manager, Compensation Policy and Monitoring. The Manager indicated that these tools are not used as frequently as they should be particularly in the case of experienced Compensation Advisors.

C) *This recommendation has been fully implemented*

On termination (struck off strength), PeopleSoft is updated with the reason for leaving code which, in turn, discontinues accrual of any leave credits.

Findings for Ontario Region

A) *This recommendation has been fully implemented*

The Virtual Pay checklist is used at termination to ensure that all documentation, including ROEs, is on file.

C) *This recommendation has been fully implemented*

On termination (struck off strength), PeopleSoft is updated with the reason for leaving code which, in turn, discontinues accrual of any leave credits.

4.2.3 *Sick Leave Management*

2003 Initial Recommendation and Management Response

*We recommend the implementation of controls to ensure that “approving officers” forward supporting documentation to those responsible for maintaining employee records. Unnecessary delays must be followed up, and persistent non-compliance must be addressed in a proactive manner.*

*Management Response:* Receipt of documentation/approvals by the appropriate “authorizing officer” prior to the conduct of a compensation transaction is an established requirement. The IC Compensation Monitoring Program will review file documentation and pursue corrective action where necessary.

Findings for National Capital Region

*This recommendation is no longer relevant*

New procedures for approving employee’s sick leave in the PeopleSoft Self Service module were introduced. Employee leave is now requested on-line using the PeopleSoft system. The manager receives an e-mail and approves the leave application directly on-line in the PeopleSoft system. The affiliated agencies of Industry Canada do not have access to the PeopleSoft system.
These employees request their leave by completing the hard copy of the leave form. Following approval by the manager, the forms are forwarded to the Compensation Advisors at Industry Canada, who input the information into the PeopleSoft system.

Due to changes in new collective bargaining agreements, employees are no longer obligated to provide medical certificates for sick leave. The requirement to provide a medical certificate is now at the discretion of the manager. In the files examined, there were medical certificates in one of the three files.

Findings for Ontario Region

This recommendation is no longer relevant

An updated version of PeopleSoft system is currently being used to support the recording of leave. Compensation Advisors are associated with specific employee files such that Advisors automatically receive all information relating to their designated employee files.

The Ontario Region recommends that sick leave be certified but it is at the discretion of the manager. In fact, the Region is currently conducting random audits to determine if medical certificates were received in cases where certified sick leave was approved. A checklist from the Virtual Pay site is used to ensure that all documentation is on file. Also, the Region has introduced a Monthly Leave without Pay Report to control complicated LWOP and to provide sick leave information.

4.3 Provision of information

2003 Initial Recommendation and Management Response (Ontario Region only)

We recommend that the Director, Compensation, Training and Management Services and the regional directors of Human Resources consider the implementation of a logging and/or review process to ensure such delays do not take place in the future.

Management Response: Timeliness has always been one of the principal service standard elements in the management of a compensation function across IC. The Ontario Region did face some challenges; corrective action has been taken by the new Director HR to stabilize the organization and its delivery of services. The new IC Compensation Monitoring Program will be the formal review process for all compensation service delivery organizations across the department.

Findings for Ontario Region

This recommendation has been fully implemented

Employees are asked to provide a minimum of 45 days notice before their retirement date. Documentation provided indicates that there are no longer delays of up to six months post-retirement to deliver pension letter documentation, related annuities, and severance payments. A checklist is completed to ensure that all documentation, including a copy of the pension letter, is on file.
4.4 Pay Equity

2003 Initial Recommendations and Management Response

A) We recommend that the Director, Compensation, Training and Management Services institute a program to review completed Pay Equity files to ensure that they contain adequate support for the pay equity payouts and that any incomplete reconciliation be investigated and completed.

B) The Director, Human Resources, Ontario Region, should continue to ensure that the remaining pay equity files be processed on a priority basis; and should implement a review process ensuring that “detail tie in” of calculations from one document to another, and that calculations are accurate and complete. This review should be indicated in some manner to “authorize” the completion of the file and its subsequent mailing.

Management Response: The Director HR for the Ontario Region has confirmed that all pay equity payments have been completed. As part of that process, several complex files were reviewed to ensure their adherence to procedures and corrections made, if required. The archiving of these files is now underway.

Findings for both regions

The management of pay equity files for both regions was completed in 2004. This recommendation is no longer relevant due to the fact that this activity no longer takes place.