



ASSURANCE SERVICES
AUDIT OF SALARY DEVOLUTION

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EXECUTIVE SUMMARY

The objective of the Department's salary devolution (SD) initiative was to devolve Canada-based Staff (CBS) salary dollars to fund centre managers (FCMs). This decision was made, in part, to better deal with continually rising CBS salary costs. It was also consistent with the government's agenda of modern comptrollership and would result in the Department's CBS salary management practices becoming more in line with those found in most other government departments. CBS salaries were devolved to FCMs effective April 1, 2002. Concurrently, the Department provided a new tool, the Salary Management System (SMS), to assist FCMs in discharging their salary management responsibilities, including the preparation of salary forecasts.

The Department has achieved its objective of devolving CBS salaries. That is, CBS salaries are no longer centrally managed by SMD. The Department has not, however, made substantial progress in achieving a key desired outcome of having FCMs accept the accountability associated with the utilization of their CBS salary budgets. Stakeholder confusion as to their respective salary management roles, responsibilities and authorities and the existence of two separate CBS salary funds (N010 and N011) are at the core of this situation. While the current funding structure affords protection of the rotational workforce through imposed restrictions on the rotational fund and the involvement of the Assignment and Pool Management Division (HMA) in staffing decisions, FCMs view it as adversely affecting their flexibility. Achievement of the desired outcomes of SD is restricted due to the Department's rotational pool.

Alternative funding approaches are being considered and were discussed with the Audit Team. It is clear that the analysis of each alternative is complex and it is unlikely that any alternative will adequately satisfy both the FCM's desire for more flexibility and the Department's interest of protecting the rotational workforce.

The Department has implemented an effective control to ensure that it identifies and requests funding to cover the full costs associated with major departmental initiatives. There is a need, however, to strengthen financial internal controls by having FCMs certify their HR Action Requests under Section 32 of the Financial Administration Act (FAA).

The Audit Team has concerns with respect to the reliability of the CBS salary forecasts submitted to the Financial Analysis Division (SMPF) for corporate consolidation and analysis purposes. Salary forecasting practices need to be strengthened by effecting timely system interfaces, providing stable access to the SMS "scenario" functionality, supplying more prescriptive direction on how to use the SMS, and maintaining adequate supporting documentation.

The reliability of SMS data has improved during the past three years. However, SMS data integrity issues persist and are primarily caused by problems

related to the timeliness and accuracy of data input into the Department's Human Resource Management System (HRMS). HR Branch Senior Management are cognizant of this situation and have made HRMS data integrity a priority. The positive actions taken recently provide the foundation for developing and promulgating HR business process documentation and putting in place formal and regular data validation and monitoring procedures.¹ Currently, documentation is mostly procedurally oriented; service standards do not exist; and validation and monitoring practices are ad hoc. Accordingly, there is a need to develop and implement an action plan to bring about the required improvement in the above noted areas. This will improve the reliability of the SMS data and its usefulness for decision-making purposes.

A need for salary management training was created when CBS salaries were devolved. Training was required to educate staff on new responsibilities and how to use departmental systems to achieve salary management objectives. As such, both conceptual and technical training was required. However, only a single one-day course on the SMS was offered to fulfill technical requirements. There is a need to strengthen and augment the existing salary management curriculum to include user-specific SMS courses as well as conceptual training on SD and salary management. By better aligning course curriculum with end-user objectives, it is expected that the ability of departmental staff to discharge responsibilities under SD will be improved.

Status of Recommendations

The audit report contains a total of 15 recommendations; SMD (1), SMS (2), SMP (1), HCM (5), HFD (2) and CFSS (4). Management's response to the recommendations indicates that 3 have been implemented and the remaining 12 are in progress.

¹ The separate ZIV Audit of the HRMS has reached a similar conclusion with respect to the need to formalize HR business processes and branch HRMS data validation and monitoring practices.

BACKGROUND

1.1.1 The Department's Executive Committee decided, effective April 1, 2002, to devolve CBS salaries to fund centre managers (FCM) at Headquarters bureaux and missions abroad. This decision was made, in part, to better deal with a situation of continually rising CBS salary costs. It was also consistent with the government's agenda of modern comptrollership and would result in the Department's CBS salary management practices becoming more in line with those found in most other government departments.

1.1.2 The objective of the Department's salary devolution (SD) initiative was to devolve CBS salary dollars to FCMs. While the Department's budgeting process results in the allocation of reference levels (including salaries) at the bureau level, it was Senior Management's intent to have CBS salary dollars devolved down to the level of Divisional Directors at Headquarters and Heads of Mission abroad.

1.1.3 The devolution of CBS salary dollars was expected to generate the following major benefits for FCMs and the Department:

- A. Greater flexibility in the utilization of resources to achieve program results;
- B. Better alignment of tools and information with authorities and accountabilities;
- C. Better information on the actual costs of operations;
- D. Improved accuracy and consistency of information contained in departmental systems;
- E. Improved salary forecasting; and,
- F. Improved risk management and decision-making.

1.1.4 The planning and implementation of the SD initiative was led by the Corporate Finance, Planning and Systems Bureau (SMD). A roll-out strategy for the SD initiative was developed by SMD. Some of the more significant elements of the strategy included consulting with key stakeholders through workshops, discussing the impact of SD during various mission visits and branch and departmental committee meetings, promulgating SD Guiding Principles and Practices, posting Qs&As on the SMD web site and developing and providing training on the new Salary Management System (SMS). The strategy also included creating two separate funds to manage the CBS non-rotational (N010) and rotational (N011) workforce. This was considered necessary to protect the budgetary levels of the rotational workforce for recruiting, staffing and assignment development purposes.

AUDIT OBJECTIVES, SCOPE, CRITERIA, APPROACH AND TIMING

2.1 Audit Objectives

- 2.1.1 Our audit objectives consisted of assessing the adequacy of the:
- A. CBS salary management accountability framework;
 - B. Financial controls and reporting practices related to CBS salary expenditures;
 - C. Management action plans designed to address data integrity concerns with respect to the Human Resource Management System (HRMS) and Salary Management System (SMS); and,
 - D. Salary management training provided to departmental staff.

2.2 Audit Scope and Criteria

2.2.1 The scope of the audit included an examination of the following aspects of the CBS SD initiative: accountability, financial controls and reporting, corporate systems and training. Our examination of the accountability and training aspects covered the period 2002-2005, whereas our review of the corporate systems, financial controls and reporting aspects focussed on the more recent practices associated with the 2004/05 fiscal year. The criteria used to assess the areas included in the audit's scope, agreed to by SMP and HAM (Area Management Office for HR), are contained in **Appendix A**.

2.2.2 The scope of the audit excluded an examination of expenditures associated with Foreign Service Directives (FSDs) as ZIV is planning to undertake a separate audit in this area. It also excluded an examination of the HRMS (other than that described in objective 2.1.1.C above) as it is covered by two separate ZIV audits: Leave Administration and Business Process Review of PeopleSoft HRMS. In addition, the scope excluded the key controls associated with exporting SMS data to IMS as they were reviewed as part of the recently completed Audit of Salary Expenditures and Employee Benefit Plans (EBP) Costs.

2.3 Audit Approach and Timing

2.3.1 The audit was conducted in accordance with the Treasury Board Policy on Internal Audit and the Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing. The audit took place during the period of November 2004 to April 2005.

2.3.2 The audit approach consisted of completing the following major tasks: reviewing background salary devolution and management documentation, conducting interviews with headquarters and mission stakeholders, examining the 2003/04 Performance Management Agreement and Appraisal forms for a sample of FCMs, reviewing salary forecasting practices for a sample of FCMs and Area Management

Offices (i.e. SAM, HAM, RAM and AAM), analyzing the Department's mid-year and third quarter financial reports, reviewing action plans to address HRMS and Salary Management System data integrity issues and conducting an on-line survey of past SMS training participants.

OBSERVATIONS AND RECOMMENDATIONS

3.1 Accountability Framework

3.1.1 Prior to the implementation of the SD initiative, CBS salaries were managed corporately by SMD. Effective April 1, 2002, CBS salaries were devolved to FCMs thereby increasing the amount of budgeted financial resources at their disposal for program delivery. It was Senior Management's expectation from the outset that the increase in the resource base would carry a corresponding increase in accountability. That is, an expected outcome of the SD initiative was that FCMs would feel accountable for their salary management performance.

3.1.2 Our audit indicated that, with the exception of overtime expenditures, FCMs do not feel accountable for the extent to which their CBS salary budget is effectively utilized. Significant gains have not, therefore, been realized from an accountability perspective when one compares the pre and post SD eras. This situation is attributed to the following circumstances:

- ❑ **Misalignment of responsibilities.** Three² of the four Area Management Offices included in our sample were in effect managing the branch's CBS salary budget in 2004/05 as the FCMs had to seek the AMA's tacit "approval" of planned human resource actions. While some of the FCMs related to the fourth AMA were provided with a "notional" CBS salary budget, it was in effect being managed by the bureau's administrative unit.
- ❑ **Inconsistent understanding of roles, responsibilities and authorities (RRAs).** While the *Salary Devolution Principles and Practices* document promulgated by SMD in April 2002 describes a salary management accountability framework, interviews indicate that considerable confusion exists amongst the stakeholders as to their respective salary management RRAs.
- ❑ **Divergent interests.** While FCMs have been delegated the financial signing authority with respect to their rotational salary budget (N011), the decision-making authority regarding the use and designation of rotational positions is retained by the Assignment and Pool Management Division (HMA). FCMs are to consult HMA with respect to any decision impacting assigned rotational positions and, at times, these decisions are overridden by HMA's pool management interests.
- ❑ **Imposed constraints.** Restrictions as to the use of surplus rotational dollars were imposed on FCMs when the Department devolved the CBS salary budget

² The three Area Management Offices consisted of two geographic and one functional office. One of the three offices intends to devolve the CBS salary budget to divisional directors in 2005/06.

as at April 1, 2002. The salary devolution *Principles and Practices* document specifies that surplus rotational dollars were only to be used to hire rotational terms and to offset rotational overtime and acting pay costs.

- ❑ **Unreliable salary management tool.** FCMs have not been provided, to date, with a reliable salary management tool. While strides have been made to improve the integrity of the SMS' data, problems persist which reduce the usefulness of the system as a decision-making tool.
- ❑ **Training gaps.** To date, salary management training provided to FCMs has been technical, focussing on how to use the SMS. A conceptual course on salary devolution and management, as a means of promoting an enhanced understanding of the salary management accountability framework, has not yet been offered.
- ❑ **Unclear resource management performance objectives.** We reviewed a judgmental sample of Performance Management Agreement (PMA) and Appraisal forms related to the 2003/04 fiscal-year. We found that resource management objectives were normally articulated in very general terms (i.e. effective resource management and planning) and none of the associated performance measures related to a FCM's salary management responsibilities. As a result, it is difficult to understand how a FCM's salary management performance is taken into account when assessing the extent to which resource management objectives are achieved.

The Assignment and Executive Management Bureau (HFD) reviewed the Department's PMA template while preparing for the launch of the 2005/06 EX Performance Management Program (PMP). It concluded that the on-going resource management commitment statements and performance measures (e.g. indicators) needed to be more clearly articulated as a means of strengthening the Department's financial management accountability framework. To this end, HFD requested that SMD draft revised resource management commitment statements that would be used as the basis for assessing the performance of a branch's Assistant Deputy Minister, Director Generals and Directors. HFD is awaiting SMD's input. The Audit Team is of the opinion that SMD should provide input, not only on the commitment statements but also on the corresponding measures used to assess FCMs performance.

3.1.3 In summary, the Department has achieved its objective of devolving CBS salaries. That is, CBS salaries are no longer centrally managed by SMD. The Department has not, however, made substantial progress in achieving a key desired outcome of having FCMs accept the accountability associated with the utilization of their CBS salary budgets. Stakeholder confusion as to their respective salary management RRAs and the existence of two separate CBS salary funds (N010 and N011) are at the core of this situation.

3.1.4 While the current funding structure affords protection of the rotational workforce, FCMs view it as adversely affecting their flexibility as the movement between salary funds is restricted. Senior Management is aware of the impact the current CBS salary fund structure is having on operational efficiency and the salary management accountability framework. Alternative funding approaches are being considered and were discussed with the Audit Team. It is clear that the analysis of each alternative is complex and it is unlikely that any one alternative will adequately satisfy both the FCM's desire for more flexibility and the Department's interest of protecting the rotational workforce. However, it is equally clear that the current CBS salary fund structure (i.e. status quo) carries some disadvantages from an accountability perspective. Achievement of the desired outcomes of SD is currently restricted due to the Department's rotational pool.

Recommendation for SMD

3.1.5 Expand on the salary management accountability framework articulated in the "Salary Devolution Principles and Practices" document by developing and promulgating, in consultation with all applicable stakeholders, a one-to-two-page accountability matrix which defines respective roles, key responsibilities and authorities.

SMD Action and Time Frame

3.1.5 SMP will develop the accountability framework in consultation with stakeholders by March 2006. The final product will be tabled at the AMA Council.

Recommendation for HCM

3.1.6 Investigate, in consultation with all applicable stakeholders, the appropriateness of continuing to provide CBS salary reference levels using a two-fund structure, and the impact it has on achieving the desired outcomes of SD.

HCM Action and Time Frame

3.1.6 The essence of the concerns expressed at the time of salary devolution as to protect the budgetary levels of the rotational workforce for recruiting, staffing and assignment development purposes still exists. Nonetheless, we agree that alternative funding approaches should be investigated further to examine other avenues to protect the rotational workforce and assess the impact of combining the two funds (N010 and N011).

To this end, informal discussions already took place last June with SMP. HAM is currently reviewing a Discussion Paper prepared by SMP and will consult appropriate stakeholders in the course of this fiscal year. In any event, any changes to the current salary structure would not be feasible during a fiscal year. Therefore, target date to implement changes would be at the beginning of the next fiscal year.

Notwithstanding the aforementioned, as stated in this audit, the complexity and challenge around this issue is to propose a new approach that would reconcile the need to provide FCMs with more flexibility while at the same time protect the rotational workforce.

Recommendations for HFD

- 3.1.7 Obtain, from SMD, revised ongoing resource management commitment statements and performance measures that would be used as the basis for assessing the performance of departmental executives (i.e. EXs) and incorporate them into the PMA template prior to launching the 2005/06 EX PMP.**
- 3.1.8 Assess, on an annual basis, the extent to which the resource management commitment statements and performance measures per 3.5 were consistently applied by departmental executives when completing PMAs.**

HFD Actions and Time Frames

- 3.1.7 The PMA for an ADM typically has a commitment that addresses financial management. It is a matter of cascading the ADM commitment downward to the level of the FCM. For example, a commitment to stewardship and comptrollership cascaded to a commitment to SDI implementation. As we proceed through the Performance Management Cycle (PMP) for 2005/06, HFD will undertake consultations with our executives to advise, educate, guide and support them as they develop such commitments. In the same context, and in collaboration with SMD, attention will be paid to the indicators that are noted for such commitments to ensure they are concrete and measurable. The action is on-going and will be completed by the end of the fiscal year (i.e. March 2006).**
- 3.1.8 Through broadcast messages and other communications to our Executives, we will remind them of the requirements of the PMP with respect to core accountabilities, such as HR and Financial Management. We will emphasize the importance of utilizing the PMA**

as a tool in the context of strategic discussions around Business Planning and priority setting and how this links to an individual's commitments. Throughout the PMP, and at the completion of the cycle, we will serve in an advisory capacity and supportive role so that the assessments are consistent and complete. The action is on-going and will be completed by the end of the fiscal year (i.e. March 2006).

3.2 Financial Controls and Reporting

Financial Controls

3.2.1 The Department has recently introduced a control to ensure that the full costs associated with accommodating OGD staff or hiring employees, in the context of major departmental initiatives³, are identified and included in requests for government funding. This control is exercised through the application of the Shared Corporate Services model that identifies and quantifies the associated salary, EBP, PWGSC fees and Corporate “overhead” costs.

3.2.2 SMD issued a broadcast message stating that “effective April 1, 2002, managers are responsible for ensuring that sufficient funds are available (as with other types of expenditures) prior to sending HR action requests to Human Resources (HRS/HPF/HPE) i.e. certification under section 32 of the Financial Administration Act.” We reviewed the Human Resources (HR) Action Request forms (i.e. classification, staffing and acting pay actions, etc.) carrying a budgetary implication that are currently available on Outlook and found that none of them included a Section 32 certification signature block. FCMs do not, therefore, formally certify that sufficient funds exist to cover commitments against their CBS salary budget. This gap in financial control has caused staff in the Human Resources Branch to assume a “policing” role to develop assurance that FCMs have sufficient funds to cover their HR Action Requests. The Office of the Area Management Advisor - Human Resources (HAM) is currently updating a number of HR Action Request forms and is investigating how best to address the above gap in financial control.

3.2.3 In summary, the Department has introduced a control to ensure that it identifies and requests funding to cover the full costs associated with major departmental initiatives. There is a need, however, to strengthen financial internal controls by having FCMs certify their HR Action Requests under Section 32 of the FAA.

³ e.g. opening of a new mission or division.

Recommendations for HCM

- 3.2.4** **Modify, in consultation with SMD, HR Action Request Forms with a budgetary implication to include a certification under section 32 of the FAA confirming that sufficient funds exist to cover the full cost associated with the request.**

- 3.2.5** **Assess the feasibility of incorporating automated controls which ensure that HR Action Request Forms are forwarded electronically to HR by the individual who has certified the request under section 32 of the FAA.**

HCM Action and Time Frame

- 3.2.4** **Prior to salary devolution, the EXT 1690 form was used to request staffing actions. This form included a certification under Section 32 of the FAA. When salaries were devolved in 2002, the form was updated and maintained the financial certification under Section 32 of the FAA. The form was approved in HR and implemented in the summer of 2002. It was accessed via Jetform. When the HR forms moved from Jetform to Outlook in 2003, the financial certification was not included.**

Five HR Action request forms are currently being developed and streamlined prior to being migrated to the Forms On-Line site on the Departmental home page. HAM is taking the lead on this initiative by chairing meetings with core working groups and acting as liaison between stakeholders in HR, SMSH, SMPF and the technical developers.

The financial component of the new forms has been strengthened by including certification under Section 32 of the FAA. The forms can only be sent when the approval authority (MCO at mission, deputy director or above at HQ) checks a box confirming that he/she has the authority to approve under Section 32 of the FAA.

Target completion date: Spring 2006.

- 3.2.5** **The new HR forms are routed automatically to the action addressees based upon information in the form such as employee category, employee stream, employee level and action type.**

When the manager accesses the form he/she must first confirm that he/she has the authority to approve the request. A message box

indicates: only mission MCOs and HQ deputy directors or above have approval authority. Only after this confirmation is given can the "send" button be activated.

Once the manager has checked the "approved" box, his/her name is inserted automatically on the form, thus providing visible evidence that the form has been reviewed and approved by the identified approval authority. The form cannot be sent unless the "approved" box is checked.

Target completion date: Spring 2006.

Financial Reporting

3.2.6 The Audit Team examined the salary forecasting practices applied by FCMs and the Financial Analysis Division (SMPF) during the 2004/05 mid-year and third quarter financial review exercises. Our audit observations are described below.

FCM CBS Salary Forecasting Practices

3.2.7 We examined the CBS salary forecasting practises applied by a sample of FCMs. We found that, in most cases, FCMs were not preparing a forecast as the sample AMAs were in effect managing⁴ the salary budget and preparing a forecast⁵ at the branch level. This is at odds with the vision held by Senior Management when the CBS salary budget was devolved as at April 1, 2002 as there was an expectation that FCMs would be managing the budget and preparing the associated expenditure forecasts.

3.2.8 The Audit Team examined the CBS salary forecasting practises applied by the sample AMAs and FCMs (where applicable) during the 2004/05 mid-year and third quarter financial reviews. It has concerns with respect to the reliability of the forecasts produced which are submitted to the Financial Analysis Division (SMPF) for corporate consolidation and analysis purposes. Our concerns with respect to the reliability of the salary forecasts are attributed to the following factors⁶:

⁴ Three of the four sample Area Management Offices were in effect managing the branch's CBS salary budget. The role of the AMA in the management of the CBS salary budget was previously described under Section 3.1 of the report.

⁵ FCMs usually were asked to input into the AMAs' branch CBS salary forecasting exercise but were not responsible for preparing a separate forecast for their fund centre.

⁶ The scope of the audit did not include a comparison of salary forecasts to actual expenses for fiscal year 2004/05, as the final expense figures were not yet available at the end of the audit. Thus, the Audit Team is unable to demonstrate the consequences of our concerns, when compared to the actual year-end results.

- ❑ **Inconsistent use of the SMS.** Although the sample AMAs and/or FCMs made considerable use of the SMS and IMS (BI), some continue to use “black book” systems. Additionally, of those who used SMS, not all consistently and diligently vet the accuracy and completeness of the reports generated from the system prior to using them for forecasting purposes.
- ❑ **Absence of supporting documentation.** The sample AMAs and FCMs maintain documentation in support of their forecast of CBS salary expenditures. While discrepancies were not material, the Audit Team was unable to reconcile all of the AMA’s and FCM’s forecasts to documentation maintained on file.
- ❑ **Absence of the SMS “scenario” functionality.** The SMS contains functionality which allows the FCM to assess the budgetary impact of alternative staffing scenarios. This functionality was, however, disabled for most of 2004/05 due to stability problems with the system’s servers.
- ❑ **Data discrepancies between key corporate systems.** The AMAs and FCMs interviewed had encountered discrepancies in the budgeted and actual salary expenditures data reported by SMS and IMS. This occurs if users compare the salary data reported by the systems before the Integrated Management System Division (SMSF) runs the required system interfaces. While SMSF runs additional interfaces between IMS and SMS at quarter and year-end, this does not necessarily always occur at a point in time which would maximize the congruency of the salary information reported in the systems. As a result, users report having to invest substantial effort to reconcile the salary data contained in the systems.

3.2.9 In summary, there is a need to strengthen FCM salary forecasting practices by effecting timely system interfaces, providing stable access to SMS’ scenario functionality, supplying more prescriptive direction on how to use the SMS and maintaining adequate supporting documentation. These actions will improve the reliability of the forecasts submitted for corporate analysis and decision-making purposes.

Recommendations for SMS

- 3.2.10 **Determine, in consultation with SMP and SMF, when the quarter end interfaces between the salary management system and IMS should be executed in order to optimize the congruency of the data amongst the systems.**
- 3.2.11 **Provide users, beginning in 2005/06, with stable access to the SMS’s “scenario” functionality.**

SMS Actions and Time Frames

3.2.10 SMS consulted with SMP and SMF to determine when the quarter end interfaces between the salary management system and IMS will be run, in order to optimize the congruency of the data of the two systems. It was agreed that SMSF will manually run additional journal voucher interfaces at month-end, when requested. This approach has been implemented and is working well.

3.2.11 Access to the scenario functionality within the Salary Management System was removed as it had a negative impact on system performance. SMS has taken the following steps to allow the reintroduction of this functionality:

**Upgraded the software to version 4.3.12b;
Upgraded the application servers.**

As a result of the above actions, SMS has given access to the scenario functionality to six stakeholders who requested it. To date, one of these stakeholders has used the functionality.

Recommendation for SMP

3.2.12 Communicate with applicable stakeholders prior to the end of the second and third quarters requesting that:

- a) The accuracy and completeness of the actual salary expenditure data captured by the SMS be validated and correcting journal vouchers, as applicable, be processed prior to the date of the system interfaces established per 4.10 above;**
- b) Appropriate staff in the Human Resources Branch be advised of any changes required to the Human Resource Management System (HRMS) data in order to ensure that errors are corrected on a permanent basis; and,**
- c) Salary forecast reports be generated from the SMS following quarter end, retained on file and used as the basis of the submitted salary forecasts.**

SMP Action and Time Frame

3.2.12 SMP has discussed this issue a number of times with the applicable stakeholders since prior to the end of the second quarter, particularly in the AMA Council forum. Although no formal 3rd Quarter Review exercise is being conducted, the subject has again been raised in the context of expenditure analysis and forecasting as part of the Governor General Special Warrants process.

These communications reminded the Salary Management stakeholders of their responsibility to keep the system accurate and complete through regular reviews of the system data and the completion of appropriate journal vouchers, as applicable, to coincide with the system interfaces. This can be achieved by the generation of forecast reports on a regular basis and review of the resulting information, which can be retained and assist in salary forecasts as part of periodic financial review exercises, e.g. Mid-Year Review, along with regular reviews conducted locally. Those issues that are beyond the ability of the SMS user to correct are to be reported to the appropriate HCM staff for correction in the HRMS.

SMPF Salary Forecasting Consolidation Practices

3.2.13 SMPF assumes a coordination, analysis and reporting role with respect to the Department's mid-year and third quarter financial review exercises. It applied this role for the first time during the 2004/05 fiscal-year. The Audit Team noted that SMPF strengthened its internal practices during the 2004/05 third quarter financial review by bringing about a number of changes. For example, the "current budget" and "total expenditures" columns of the Excel spreadsheets provided to stakeholders were pre-populated with Business Intelligence (BI) data as at December 31, 2004. A new column entitled "expected variance in Current Budget" was also added to the spreadsheet package as a means of isolating the portion of a forecasted variance attributed to pending budget adjustments.

3.2.14 SMPF vetted the reasonableness of the submissions received from the Area Management Offices during the 2004/05 third quarter financial review. To this end, it ensured that no revisions were made to the columns of the Excel spreadsheet that had been pre-populated with BI budget and expenditure data. It also compared the branch's reported salary forecast for the year with the forecast information appearing in the SMS as of December 31, 2004. Large discrepancies were discussed with the Program Analysis (SMPA) section and the AMA, if required.

3.2.15 In summary, SMPF has brought about a number of positive changes to the Department's mid-year and third quarter financial review processes since its

operations took hold in the fall of 2003. Overall, these changes have improved the quality of the corporate oversight being exercised over CBS salaries.

3.3 Corporate Systems

3.3.1 The Salary Management System (SMS), in the context of the SD initiative, was the key tool provided to FCMs to assist in the forecasting of their CBS salary requirements. SMS interfaces with HRMS, IMS and the PWGSC On-Line Pay system. The integrity of SMS data depends, therefore, on the integrity of the data in the “feeder” systems and the effectiveness of the technical interfaces. Our review of corporate systems focussed on the interface where data from IMS is exported to the SMS.⁷ It also examined the actions taken by the HR Branch to address known issues surrounding the timeliness and accuracy of HRMS data input.

Exporting of IMS data to SMS

3.3.2 The Audit Team tested a sample of 2004/05 IMS export files and found that they had been successfully (i.e. number of records and dollar value) exported to SMS.⁸

HRMS data input

3.3.3 Technical issues with the SMS caused some data integrity concerns when the application was first made available to users in April 2002. These technical issues have since been resolved. While the reliability of SMS data has improved during the past three years, concerns in this regard continue to exist. Current SMS data integrity issues are primarily caused by problems related to the timeliness and accuracy of HRMS data input, which occurs in the HR Branch. The absence of HR business process documentation partially explains the difficulties encountered with the timeliness and accuracy of HRMS data input.

3.3.4 Senior Management of the HR Branch is aware of the impact issues surrounding HRMS data input are having on the integrity of the information residing in SMS. It has taken several positive steps to address the situation including, but not limited to:

⁷ The interface between the SMS and the PWGSC On-Line Pay System and the exporting of data from SMS to IMS were examined during the Audit of Salary Expenditures and Employee Benefit Plans Costs. The audit concluded that the interfaces were operating effectively.

⁸ SMPF reconciles the salary expenditure data appearing in SMS and IMS at year-end. This control was tested by ZIV during the audit of Salary Expenditures and Employee Benefit Plans (EBP) costs and was found to be operating effectively.

- ❑ Created and staffed the Head, Business Resource Systems and Business and Data Quality Advisor positions during 2004/05;
- ❑ Created the HR/HRMS Advisor Group, comprised of various stakeholder groups including AMAs and SMPF, with a mandate to provide timely information to HR managers and officers regarding HRMS and to address issues around HR business processes and data ownership;
- ❑ Created the HR/HRMS Discussion Group - a forum to discuss, with HR staff, complex data entry procedures and suggest improvements to increase understanding and accuracy of data in HRMS;
- ❑ Coordinated the updating and migration of HR Action Request Forms to the Forms On-Line site contained on the Department's Intranet;⁹
- ❑ Provided HR managers with statistics on HRMS data integrity issues associated with their divisions; and,
- ❑ Developed an error correction procedure providing guidance to departmental managers on how to request correction of noted SMS data discrepancies.

3.3.5 HAM coordinated the delivery of presentations on the SMS by SMSF to HR staff in 2004/05. This was a positive initiative. The presentations provided an overview of the related system interfaces and highlighted the impact HRMS data input has on the integrity of SMS data. However, consultations with CFSI have not taken place to suggest that they undertake a review of HRMS training courses to determine if they place an appropriate degree of importance to these areas.

3.3.6 In summary, HR Branch Senior Management have clearly made the timeliness and quality of HRMS data input a priority. The positive actions recently taken provide the foundation for developing and promulgating HR business process documentation and putting in place formal and regular data validation and monitoring procedures.¹⁰ Currently, documentation is mostly procedurally oriented; service standards do not exist; and, validation and monitoring practices are ad hoc. Accordingly, there is a need to develop and implement an action plan to bring about the required improvements in the above noted areas. This will have the collateral effect of improving the reliability (i.e. completeness and accuracy) of the SMS data and improving its usefulness for decision-making purposes.

Recommendations for HCM

3.3.7 Develop and monitor the implementation of an action plan that will identify the tasks, establish milestones, assign responsibility, specify deliverables and allocate resources for the:

⁹ This initiative is ongoing. To date, work has taken place on three HR Action Request Forms with one form expected to be migrated to the departmental home page in the near future.

¹⁰ The separate ZIV Audit of the HRMS has reached a similar conclusion with respect to the need to formalize HR business processes and branch HRMS data validation and monitoring practices.

- a) **Development of service standards with respect to the processing of HR Action Requests and the correction of errors in HRMS data input;**
- b) **Preparation, in consultation with stakeholders, of business process documentation describing the inputs, activities, outputs and responsibilities of all parties involved in processing the various HR Action Requests affecting a manager's CBS salary budget; and,**
- c) **Definition, documentation and implementation of a business process(es) to validate and monitor the timeliness and quality of the data input into the HRMS.**

3.3.8 Contact CFSS and request that it review the syllabus of HRMS training courses which involve data input to ensure that appropriate emphasis is placed on the interfaces of departmental systems and the potential impact (on SMS and IMS) of untimely and inaccurate HRMS data input.

HCM Actions and Time Frames

3.3.7 a) The HRMS Business Resource team has been looking at various options for tracking the correction of discrepancies in HRMS in a more formal and less labour intensive way than is the current practice. One option that has been discussed and endorsed at the HR/HRMS Advisor Group is the Remedy system.

The Remedy system would enable us to run and customise various statistical reports which would enable us to do trend analysis, identify training needs and establish service standards. The advantages would be to:

- track the history of corrective action for an assigned ticket;**
- document the number of problems received and resolved;**
- track problem types;**
- identify frequency of specific problems; and,**
- track the length of time to correct an identified problem.**

Target date for completion of proposal to implement Remedy throughout HR is January 2006. Decision would then have to be taken as to whether the proposal is adopted or not.

- b) This is being done simultaneously with the development of the HR Action forms. HAM has chaired meetings with all stakeholders during the development process in order to get consensus and make decisions around processes that are unclear or not well documented. All decisions have been documented and circulated and will form the basis of the business process. (Target completion date: Spring 2006.)**
- c) This recommendation was also part of the recently completed HRMS Audit. The audit report identified a lack of clearly documented policies, business processes, business procedures, verification and communication processes as key to the data integrity issues that currently exist. The recommendation was to implement a Human Resources Control Framework that would provide the infrastructure needed to achieve, validate, monitor and sustain data integrity in the HRMS database.**

The development of verification and monitoring programs to assess the adequacy and effectiveness of HR policies, procedures and controls falls under level four of the Control Framework. As such, effective completion of these activities depends to a large degree on the successful implementation of activities falling under the first three levels of the Control Framework.

HCM is committed to developing and implementing the Control Framework and has developed an action plan to identify actions and time frames for its completion. Target completion date for full implementation of the Control Framework is two to three years (2007 – 2008.)

3.3.8 The impact of HRMS data on other corporate systems is explained in the HRMS Overview course that is a pre-requisite to all other HRMS training courses.

Earlier this year, the HAM Business Resource team in consultation with SMSS coordinated two SMS Overview sessions for HR assistants doing data entry. The SMS Overview should be expanded and offered at regular intervals to all employees in HR. It should not be limited to those doing data entry. The Overview facilitates understanding of the interdependencies of our information systems that is critical for everyone who relies on data to perform their job. The SMS Overview could be developed as an on-line training tool.

We will discuss these issues with CFSS. Target date to initiate discussions is January 2006.

3.4 Training

3.4.1 A need for salary management training was created when CBS salaries were devolved in April 2002. Training was required to educate staff on their new responsibilities and how to use departmental systems to achieve their salary management objectives. As such, both conceptual and technical training was required. Responsibility for training in the context of the SD initiative rested with SMSS¹¹ until April 2002, at which time it was transferred to CFSS. Course material for managers was developed by CFSS, with input from SMSS, that articulated the financial implications of staffing decisions within the context of salary devolution. This course, however, was never offered by the Department, for reasons that were not documented. A new course on the Salary Management System (SMS) was provided to fulfill the technical requirement.

Salary Management System (SMS)

3.4.2 The SMS training is offered in a one-day course to all staff, both at HQ and missions abroad. The training material used for the course consists of a reference guide which was adapted from a document used by Agriculture Canada. While the reference guide is a good tool and provides technical instruction on the use of the system, it does not adequately respond to the needs of various user groups. This was evident in the comments contained in the course evaluations reviewed during the course of the audit. This was also highlighted by the respondents to a ZIV survey who suggested that courses for specific user groups, i.e. AMAs, FCMs and administrative staff, could be developed to better associate training with the users' salary management objectives. The survey also indicated that, while 60% were satisfied with the course content, 72% of respondents felt that they would benefit from advanced SMS training.

3.4.3 Through our interview and survey process, SMS users commented that reports are sometimes ignored due to questions of data integrity. This is partially due to a lack of understanding of how the key departmental systems link with SMS. If training was provided on system interfaces, users may be more likely to pursue the resolution of data integrity concerns, rather than ignore the reports altogether.

Salary Management

3.4.4 The Human Resources and Financial Management foundation course forms a part of CFSI's positional curriculum for divisional assistants, supervisors, AMAs, deputy directors, directors, DGs and ADMs. The course is offered over three days and provides an overview of managing human resources and finances. While salary

¹¹ SMSS - Business Intelligence, Activity Based Costing and Salary Management Section.

management is addressed, the course provides only a general overview which does not adequately address the needs of FCMs. This is supported by our survey of SMS course participants which indicated that 82% of respondents felt they would benefit from learning about SD, salary management and the related stakeholder roles, responsibilities and authorities.

3.4.5 In summary, there is a need to strengthen and augment the existing salary management curriculum to include user-specific SMS courses as well as conceptual training on SD and salary management. By better aligning course curriculum with end user objectives, it is expected that the ability of departmental staff to discharge their responsibilities under SD will be improved.

Recommendations for CFSS

3.4.6 **A conceptual/theoretical course on salary management and devolution should be developed and included as a mandatory course for managers in the Resource Management Master Curriculum delivered by CFSI. It should include, but not be limited to, the following:**

- a. **Salary devolution objectives.**
- b. **Salary management roles, responsibilities and authorities.**
- c. **Salary management business processes.**
- d. **Material to situate salary management in the context of a FCMs broader financial management responsibilities.**

3.4.7 **Once the salary management responsibilities are defined, as per recommendation 3.3, consideration should be given to developing specific SMS courses to help stakeholders discharge the associated accountability.**

3.4.8 **SMS course curriculum should include a detailed description of the data flow between PWGSC on-line pay, IMS, HRMS and SMS.**

3.4.9 **In order to facilitate the implementation of recommendation 4.12 (e.g. the requirement to validate SMS expense data, process correction JV's, contact HR for HRMS correction, use specific SMS reports for the departmental forecasting exercise, retain the SMS reports used, etc.) consideration should be given to developing a specific course, or part thereof, that addresses the reporting and analysis needs of specific user groups.**

CFSS Actions and Time Frames

- 3.4.6** CFSS developed a theoretical course on SMS for fund centre managers when Salary Devolution was introduced in 2002. The course focussed on the financial implications of managing staff. However, there was no buy-in for such a course. CFSS can resurrect and update this theoretical course and can include it with the SMS courses already listed in the Resource Management Master Curriculum. However, the biggest challenge for CFSS with regard to this recommendation is the word “mandatory”. Departmental managers must be informed that the training is mandatory and this should not be done by CFSS but rather through communication from the Management Committees of both departments. Target completion date is November 2006.
- 3.4.7** Following the definition of salary management responsibilities by SMD as per recommendation 3.3, CFSS will give consideration to developing specific SMS courses to help stakeholders discharge the associated accountability. Target completion date is November 2006.
- 3.4.8** Detailed description of data flow between PWGSC on-line pay, IMS, HRMS and SMS has been requested from SMS on 12th October 2005. When received CFSS will include in SMS training material. Target completion date is November 2006.
- 3.4.9** CFSS initiated discussion with SMP on recommendation 6.9 on 12th October 2005 and will follow through with whatever is decided, in consultation with SMP, by November 2006.

Appendix A - Audit Criteria

The audit criteria used as the basis of our examination of the selected lines of inquiry are detailed below.

Scope Area #1 - Salary Devolution - Accountability Framework

- 1.1 The Department's salary management accountability framework should be documented, promulgated to stakeholders and kept up-to-date.
- 1.2 Stakeholders should understand and accept their salary management role, responsibilities and accountability.
- 1.3 Fund centre managers should be held accountable for their salary management performance.

Scope Area #2 - Salary Devolution - Financial Controls and Reporting

- 2.1 An effective key control(s) should exist to prevent over spending of the Department's salary reference level.
- 2.2 The forecast of CBS salary expenditures developed by HQ and Mission FCMs during the mid-year and third quarter financial reviews should be substantiated by documented analyses.
- 2.3 The Branch CBS salary forecast prepared by the Area Management Office during the mid-year and third quarter financial reviews should be based on the CBS salary forecast received from FCMs.
- 2.4 The forecast of departmental CBS salary expenditures developed by SMP during the mid-year and third quarter financial reviews should be based on the branch salary forecast submitted by the Area Management Offices and substantiated by documented analyses.

Scope Area #3 - Salary Devolution - Corporate Systems

- 3.1 The root cause(s) of errors in PeopleSoft data should be analyzed by HCM as the basis of establishing an action plan for correcting known errors and preventing their occurrence in the future.
- 3.2 Effective controls should be in place to ensure that IMS data is accurately exported to the Salary Management System.

Scope Area #4 - Salary Devolution - Training

- 4.1 The majority of FCMs have received salary management training that addresses their needs.