



1999-721 Report

Audit of Translation Bureau Incentive Pay Plan

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**1999-721 Audit of Translation Bureau Incentive Pay Plan
Report**

Table of Contents

Executive Summary	1
1. Introduction	5
1.1 Authority for the Project	5
1.2 Objectives	5
1.3 Scope	5
1.4 Background	5
1.5 Approach and Methodology	6
2. Findings, Conclusions and Recommendations	7
2.1 Management Framework	7
2.1.1 Criteria	7
2.1.2 Recommendations	8
2.2 Accuracy of the Incentive Payments	9
2.2.1 Recommendations	10
2.3 Effectiveness, Efficiency and Economy of the Plan	10
2.3.1 Recommendation	11

Executive Summary

Authority for the Project

The audit of the Translation Bureau Incentive Pay Plan has been approved by the Departmental Audit and Review Committee.

Objectives

The objectives of the audit were to:

- Review the management control framework put in place by the Bureau to implement the Plan in order to ensure the integrity of the processes and data.
- Review the payments made through the Plan to ensure their accuracy.
- Review the efficiency, effectiveness and economy of the Plan since its inception in December 1998 to evaluate its effect on:
 1. Productivity and contracting out.
 2. Containing expenditure and improving the bottom line.
 3. Quality and service to clients.

Scope

The audit focused on:

- The actions taken by the Translation Bureau to implement a management framework to ensure the integrity of the processes and data related to the Incentive Pay Plan.
- The verification of the listings of the incentive payments for the four-month period December 1998 to March 1999.

The audit did not include a review of the related automated systems, as Translation Bureau management was satisfied as to the accuracy and reliability of these systems in processing data, based on recent in-house review.

Background

The Translation Bureau became a Special Operating Agency in 1995. In preparing its Business Plan for 1996-97, the Bureau recognized that to achieve financial stability, it needed to augment its revenues. As increased revenues would depend to a large degree on a related increase in the productivity of employees, the Bureau recognized that an Incentive Pay Plan would be an

**1999-721 Audit of Translation Bureau Incentive Pay Plan
Report**

effective strategy to recognize the contribution of employees to the Bureau's success, to encourage the Bureau's best staff to remain, to give staff a new source of motivation, to reduce contracting-out expenses as well as increase revenues through higher productivity. Consultations were held with the Canadian Union of Professional and Technical Employees (CUPTE), PWGSC Human Resources and Treasury Board. The result was the development of a Memorandum of Understanding, signed July 1998, between the Treasury Board, as the employer, and CUPTE, as the bargaining agent. The Plan was to take effect December 1, 1998 and terminate on March 31, 2000. The first incentive period was for the four-month period December 1, 1998 to March 31, 1999.

This is the first model of a financial incentive program linked to productivity in the Public Service.

Approach and Methodology

Our audit was conducted in accordance with generally accepted auditing standards. The audit was carried out in three phases: planning, examination and reporting.

The purpose of the planning phase was to gain background information on the Incentive Plan, ascertain the specific concerns of senior management, and acquire an understanding of the management control framework related to the implementation and operation of the Incentive Plan. We conducted interviews with key officers at the corporate level as well as with directors, chiefs and administrative officers in both the Operations Sector (OS) and the Interpretation and Parliamentary Translation Sector (IPTS) to gain an understanding on how the Incentive Plan system and processes were intended to operate. Management's main concern identified by our interviews was whether the incentive payments appearing on the listings for the first incentive period, submitted for audit, had been calculated accurately. We concluded that the accuracy and reliability of the payments depended on the accurate recording, inputting and reporting of data affecting the calculation of the incentives such as translator billable and non-billable time, type of work performed and method of billing. A particular area of concern was non-billable activities reported on the translators' timesheets, including training (given and received), administrative and management work, downtime, union activities, and other activities, some of which must be expressly authorized by the employer.

In the examination phase, we reviewed the listings of incentive payments which were submitted to us at the beginning of the audit in July. These listings represented the proposed incentive payments in the two above mentioned sectors. In IPTS, we selected and tested ten payments representing 15% of the total number of payments, and 39% of the total dollar value of payments. In the OS, we selected for our review eight points of service, which management considered to be "higher risk," plus two additional points of service, selected at random. The sample tested in OS represented 15% of the total number of payments in OS and 25% of the total dollar value of payments in OS .

**1999-721 Audit of Translation Bureau Incentive Pay Plan
Report**

We developed an audit program to perform the detailed testing based on the concerns identified in the planning phase. Audit findings and test results were summarized and discussed with management prior to finalizing our conclusions.

Findings

The key findings are:

The existing system of reporting, recording and validating translators' productive, non-productive time and output needs to be strengthened in the OS.

The process for managing and conducting internal reviews to ensure the accuracy of the incentive payment listings needs to be strengthened and formalized in the OS and IPTS Sectors.

A number of errors were noted during our initial review and testing of transactions related to the incentive payments lists, submitted for audit. Translation Bureau Management has advised that the identified errors have since been corrected, before the release of payments.

Due to the short pilot period for the Plan and therefore the short amortization period of any major system development, Translation Bureau has not yet completed the development of the mechanisms to carry out analyses to measure, monitor and evaluate on going activities related to the Plan in order to conclude on the success of the Incentive Plan. Currently analysis are done after the fact.

Recommendations

It is recommended that:

1. *The Translation Bureau strengthen its management framework to ensure accurate and complete input of time and production information. This includes proper completion of Timesheets and Workflow Sheets as required by the procedures outlined in the "Activity Management System Incentives Validation Instructions" and an effective monitoring process to ensure that the information to be entered in the AMS is accurate.*
2. *The requirement to continue the use of eleven activity codes when completing the Workflow Sheets be reassessed with the union (CUPTE) in order to retain only the essential codes necessary for management analysis and thereby reduce the number of coding errors affecting the calculation of the incentive payments.*

**1999-721 Audit of Translation Bureau Incentive Pay Plan
Report**

3. *A procedure be developed to ensure that management identifies translators at the beginning of each incentive period who are not eligible to receive incentive payments to ensure that only eligible translators are paid incentives .*
4. *The monitoring process for the review of incentive payment listings be formalized, roles and responsibilities more clearly defined, and procedures documented, so that incentive payments are accurate, an audit trail exists on the identified type of errors and there is assurance that corrections are properly made in the AMS.*
5. *If the Plan becomes operational on a more permanent basis, the Translation Bureau should develop effective tools to permit the extraction of the required data from the management information system to accurately calculate the indicators required by management to assess translators' productivity as well as other success measures for the Incentive Pay Plan such as increased profitability and quality of service.*

**1999-721 Audit of Translation Bureau Incentive Pay Plan
Report**

1. Introduction

1.1 Authority for the Project

The audit of the Translation Bureau Incentive Pay Plan has been approved by the Departmental Audit and Review Committee.

1.2 Objectives

The objectives of the audit were to:

- Review the management control framework put in place by the Bureau to implement the Plan in order to ensure the integrity of the processes and data.
- Review the payments made through the Plan to ensure their accuracy.
- Review the efficiency, effectiveness and economy of the Plan since its inception in December 1998 to evaluate its effect on:
 1. Productivity and contracting out.
 2. Containing expenditure and improving the bottom line
 3. Quality and service to clients.

1.3 Scope

The audit focused on:

- The actions taken by the Translation Bureau to implement a management framework to ensure the integrity of the processes and data related to the Incentive Pay Plan.
- The verification of the listings of the incentive payments for the four-month period December 1998 to March 1999.

The audit did not include a review of the related automated systems, as Translation Bureau management was satisfied as to the accuracy and reliability of these systems in processing data, based on recent in-house review.

1.4 Background

The Translation Bureau became a Special Operating Agency in 1995. In preparing its Business Plan for 1996-97, the Bureau recognized that to achieve financial stability, it needed to augment its revenues. As increased revenues would depend to a large degree on a related increase in the productivity of employees, the Bureau recognized that an Incentive Pay Plan would be an effective strategy to recognize the contribution of employees to the Bureau's success, to encourage the Bureau's best staff to remain, to give staff a new source of motivation, to reduce

**1999-721 Audit of Translation Bureau Incentive Pay Plan
Report**

contracting-out expenses as well as increase revenues through higher productivity. Consultations were held with the Canadian Union of Professional and Technical Employees (CUPTÉ), PWGSC Human Resources and Treasury Board. The result was the development of a Memorandum of Understanding, signed July 1998, between the Treasury Board, as the employer, and CUPTÉ, as the bargaining agent. The Plan was to take effect December 1, 1998 and terminate on March 31, 2000. The first incentive period was for the four-month period December 1, 1998 to March 31, 1999.

This is the first model of a financial incentive program linked to productivity in the Public Service.

1.5 Approach and Methodology

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The purpose of the planning phase was to gain background information on the Incentive Plan, ascertain the specific concerns of senior management, and acquire an understanding of the management control framework related to the implementation and operation of the Incentive Plan. We conducted interviews with key officers at the corporate level as well as with directors, chiefs and administrative officers in both the Operations Sector (OS) and the Interpretation and Parliamentary Translation Sector (IPTS) to gain an understanding on how the Incentive Plan system and processes were intended to operate. Management's main concern identified by our interviews was whether the incentive payments appearing on the listings for the first incentive period, submitted for audit, had been calculated accurately. We concluded that the accuracy and reliability of the payments depended on the accurate recording, inputting and reporting of data affecting the calculation of the incentives such as translator billable and non-billable time, type of work performed and method of billing. A particular area of concern was non-billable activities reported on the translators' timesheets, including training (given and received), administrative and management work, downtime, union activities, and other activities, some of which must be expressly authorized by the employer.

In the examination phase, we reviewed the listings of incentive payments which were submitted to us at the beginning of the audit in July. These listings represented the proposed incentive payments in the two above mentioned sectors. In IPTS, we selected and tested ten payments representing 15% of the total number of payments, and 39% of the total dollar value of payments. In the OS, we selected for our review eight points of service, which management considered to be "higher risk," plus two additional points of service, selected at random. The sample tested in OS represented 15% of the total number of payments in OS and 25% of the total dollar value of payments in OS .

We developed an audit program to perform the detailed testing based on the concerns identified in the planning phase. Audit findings and test results were summarized and discussed with management prior to finalizing our conclusions.

2. Findings, Conclusions and Recommendations

2.1 Management Framework

2.1.1 Criteria

An effective management control framework for the Incentive Pay Plan should include the following elements :

- linkage between the overall management framework of the organization and its performance management regime, one element of which is the Incentive Pay Plan;
- the establishment of clear performance goals and expectations for the Incentive Pay Plan;
- the development and dissemination of policies and procedures through a centre of expertise in the organization;
- the establishment of training programs for employees who will be implementing the Plan, providing the required data to calculate the payments and monitoring the accuracy of the payments;
- clear communication of employee roles, responsibilities and accountability for the Plan administration;
- the provision of effective tools, systems and processes including a reliable time reporting system;
- monitoring and quality control of the incentive pay plan activities, including identifying and tracking performance indicators.

The Translation Bureau had a short timeframe to implement an appropriate management framework at the commencement of the implementation of the Incentive Pay Plan.

Various positive initiatives were undertaken once the Memorandum of Understanding for the Plan was signed. An Incentive Program Requirement Study was undertaken to analyze the process requirements necessary to implement the Incentive Plan and the Bureau began implementing the recommendations of the study. Staff were regularly informed through bulletins on the progress of the implementation of the Plan. An Activity Management System (AMS) Procedural Manual was developed for staff use although we noted that some points of service visited did not have up-to-date versions of this manual. Technical bulletins were prepared for use by Translation Unit heads and administrative staff regarding manual and automated procedures related to AMS operations and use of related Powerplay software. Related training sessions were also held for all staff.

A time reporting system mandatory for translators was implemented, to maintain accurate time information related to billable production as well as non-billable activities. The introduction of the new time reporting system was a major cultural change for the Bureau. Translators did not

**1999-721 Audit of Translation Bureau Incentive Pay Plan
Report**

favourably receive this new requirement, and the Bureau had to deal with the resistance of some translators to comply with the new requirement. The MOU also introduced eleven activity codes (six of which were for quality control activities) to report billable and non-billable activities. Some of these activities are subject to incentive payments. Although the introduction of these codes may allow management to better analyse production activities, our review indicated that translators were confused as to what code should be used in certain circumstances. This situation was a direct cause for many coding errors with a direct impact on the calculation of the incentive payments as detailed in Section 2.2 of this report.

Our tests also indicated that there was no control procedure or reconciliation carried out to ensure that all billable and non-billable time was accurately recorded. Timesheets were generally not approved by the chiefs for the period under review, nor were there any indications of an adequate procedure implemented by the Bureau to ensure that total time was balanced and correctly input into the AMS. The high incidence of "undefined time", which represents the difference between hours available in a day and the total number of hours reported by translators, supports our finding that there is no balancing or reconciliation of monthly time input to AMS to ensure accuracy of the database.

The Management of the Bureau maintains that the ultimate control over the accuracy of the output related to individuals would be ensured by the employees themselves. Staff are provided with a statement of their monthly production and achievement information, and are supposed to review this information and if in agreement, they are to acknowledge by returning a monthly statement. If they do not agree, they are to advise supervisors accordingly. In reality, this control does not appear to work, since none of the input errors we noted in our testing was picked up by staff.

The Bureau did implement a monitoring process to verify all incentive calculations prior to payment. A significant amount of time and effort was expended by Directors, Chiefs, and Administrative Assistants as well as by officers from Business Development. While the intent of the monitoring exercise was positive, roles and responsibilities of the persons undertaking a monitoring role were not clearly defined. Information on the nature and extent of the monitoring procedures carried out and what specific types of errors found as well as the error amounts was not available. It was not clear who was going to correct the errors in the AMS. While some errors were corrected at the point of service level, chiefs at other points of service were not clear about the correction process and believed the errors would be corrected centrally and therefore submitted their corrections to Headquarters. There was no assurance that all the errors had been properly corrected in the AMS.

2.1.2 Recommendations

It is recommended that:

1. *The Translation Bureau strengthen its management framework to ensure accurate and complete input of time and production information. This includes proper completion of*

**1999-721 Audit of Translation Bureau Incentive Pay Plan
Report**

Timesheets and Workflow Sheets as required by the procedures outlined in the "Activity Management System Incentives Validation Instructions" and an effective monitoring process to ensure that the information to be entered in the AMS is accurate.

2. *The requirement to continue the use of eleven activity codes when completing the Workflow Sheets be reassessed with the union (CUPTÉ) in order to retain only the essential codes necessary for management analysis and thereby reduce the number of coding errors affecting the calculation of the incentive payments.*

2.2 Accuracy of the Incentive Payments

Translation Bureau submitted to the audit team in July the listings of incentive payments for the period under review. One of the difficulties encountered by the audit team is that the Translation Bureau continued to make corrections and revisions to the names and amounts in the AMS database, with the result that we were not working with the final, reliable and up-to-date list. For instance, the listings provided by Operations Sector contained 375 names and incentive amounts. We were advised, on receipt of the listings, that 44 of the names were ineligible. Related payments listed for these 44 names amounted to \$65,545. When Translation Bureau produced its final listing of incentive payments in September, we were advised that the total number of incentive payments for the Operations Sector was approximately 300, which represented a considerable reduction (another 31 names) from the July listings.

Our review identified, as noted below, additional translators non-eligible to receive incentive payments either because they were new employees or they were working on fixed fee projects.

Our approach and methodology used for testing the incentive payments is outlined in Section 1.5 of this report.

Our findings are summarized as follows:

Errors with a significant monetary impact include:

- 17 translators ineligible for incentives were on the lists resulting in over-calculation of incentives by \$47,647
- 19 coding errors resulted in the over-calculation of incentives by \$1,549
- 4 overtime forms not entered in SMS and AMS resulted in over-calculation of incentives by \$1,435
- incorrect cut-off calculation for production at ITPS resulted in incorrect incentive calculations for 20 employees (recalculation to be done by ITPS Lotus System)

Numerous other errors without significant monetary impact include:

- production time credited to the wrong employee
- incorrect production time credited to an employee

**1999-721 Audit of Translation Bureau Incentive Pay Plan
Report**

- lack of approvals on non-billable timesheets and overtime forms
- incorrect number of hours used as the monthly standard number
- undefined time identified for almost all translators tested
- missing overtime forms
- overtime entered on *Request for Translation* form but overtime form not prepared by employee
- *Request for Translation* forms not always completed, i.e., actual time not filled in
- actual time on *Request for Translation* form different from AMS report
- salary difference between Powerplay list and SMS

These findings raised some concerns regarding the effectiveness of the monitoring carried out by Bureau staff. This also raised questions as to the reliability and accuracy of the figures on which the incentive payments were based.

While most of the errors reported above had no major financial impact on an individual basis, the number and type of errors found in our sample did not provide the level of comfort needed to conclude that adequate controls were operating to ensure the accuracy of the input in the AMS and the calculation of the amounts of the incentive payments.

All errors noted during the audit were discussed with Bureau management who concurred and intended that all would be corrected prior to finalizing the payments for the first incentive period.

2.2.1 Recommendations

It is recommended that:

1. *A procedure be developed to ensure that management identifies translators at the beginning of each incentive period who are not eligible to receive incentive payments to ensure that only eligible translators are paid incentives .*
2. *The monitoring process for the review of incentive payment listings be formalized, roles and responsibilities more clearly defined, and procedures documented, so that incentive payments are accurate, an audit trail exists on the identified type of errors and there is assurance that corrections are properly made in the AMS.*

2.3 Effectiveness, Efficiency and Economy of the Plan

One of the objectives of this audit was to evaluate the effect of the Incentive Plan on productivity and contracting out, contain expenditure and improve the bottom line, and quality and service to clients.

**1999-721 Audit of Translation Bureau Incentive Pay Plan
Report**

We were unable to form a meaningful opinion on the effects of the introduction of the Incentive Plan for the following reasons:

- The four-month period since the introduction of the Plan was too short to reach a definite conclusion .
- The first incentive period (December to March) is not representative since it is normally a heavy production period not affected by extensive annual leave.
- The financial and other quantitative data needed to conduct such analysis is not readily available through the management information system currently maintained by the Bureau. We were informed that the Bureau has developed several performance indicators that could be used to assess the effect of the Plan, however, the Bureau is unable to calculate the indicators since the extraction of the data required to calculate some of these indicators need a software not yet developed by the Bureau. The Bureau plans to address this issue if the Plan is extended for the long-term. It is not feasible to make investments in present systems due to resource constraints and uncertainty about the future of the Plan after the pilot period.

Management has identified a gain of \$885K in the OS for the four-month pilot period, i.e., incremental revenue of \$1,670K less \$785K in incentive payments. Management also identified an increase of 5.9% in productivity during the incentive period in the IPT Sector. Management, however, has not done further analysis to indicate all factors which could have contributed to the increase in revenue, which may be due to factors other than higher output per translator. Management plans to address this once the Plan is operating for the longer term beyond the pilot period.

2.3.1 Recommendation

It is recommended that:

1. *If the Plan becomes operational on a more permanent basis, the Translation Bureau develop effective tools to permit the extraction of the required data from the management information system to accurately calculate the indicators required by management to assess translators' productivity as well as other success measures for the Incentive Pay Plan such as increased profitability and quality of service.*