AUDIT

OF

COMPENSATION SERVICES

SMSH

SEPTEMBER 2002

Audit Division (SIV)

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EXECUTIVE SUMMARY

An internal audit of the Department's Compensation Services unit (formerly SMFC) was carried out from October to December 2001.

The audit focused on Compensation Services' management control framework, the efficiency of its business processes and practices, and the organizational placement of the compensation services function within the Department.

This Report contains recommendations aimed at improving Compensation Services' delivery of its services to clients. The issues involved are well known to Compensation Services management, and many of them have already generated project and task plans. Implementation and follow-up action in the past has been weak or missing, and it is this aspect of Compensation Services' management control process that is the main subject of our recommendations.

The Audit Team found in Compensation Services an ongoing operation working with their clients' best interests in mind, and acting in accordance with regular and special deadlines. We encountered many Compensation Advisors who enjoy compensation work and are strongly motivated to help their clients. These attitudes were reflected at the supervisory and managerial levels as well. They dealt with the Pay Equity payments project as well as their counterpart units in other government departments. Initiatives to improve service delivery have been implemented, e.g., the Call Centre, whose performance as a best practice (together with some of their checklists) is a subject of interest elsewhere in the compensation community. Our file review indicated that DFAIT employees were being accurately paid. In other words, they were receiving the pay that they were authorized to receive.

These positive attributes have enabled Compensation Services to carry on delivering its services in the face of pressures and challenges originating from government-wide, departmental, and internal sources.

Nevertheless, Compensation Services' management control framework has a number of weaknesses that limit its ability to improve the quality of its services to clients. Goals, objectives and plans for delivering core business processes need to be formalized and distributed. Planned projects require implementation. Quality controls and systems for gathering information for decision-making need strengthening. Compensation Services' internal policies and procedures should be updated, and desk procedures need application in a consistent manner. Backlog problems require resolution. Training, and intra-office communication and feedback on quality of service issues should be improved for the benefit of staff and clients.

In addition to improving client service, measures taken to improve Compensation Services' management control framework will also have a positive impact on staff morale.

It is imperative that the process of implementing improvements does not jeopardize ongoing operations and their associated deadlines. This criterion will inevitably limit the rate of improvement implementation if Compensation Services is required to proceed solely on its own initiative, and without support from elsewhere in the Department. The Audit Team believes that a person with management experience should be engaged on a short-term basis to assist the A/Manager with the process of improvement. This person's role would be that of mentor/consultant, who would among other duties take on special projects, monitor implementation and work with staff and supervisors on various improvement tasks.

The Audit Team's review of the organizational placement of the compensation services function within the Department led to the conclusion that it should be moved to the Human Resources Branch from the Corporate Services Branch. A draft recommendation to this effect was initially accepted by the management of both Branches.

Since that time, Corporate, Finance, Planning and Systems Bureau (SMD) announced on March 4, 2002 that Compensation Services (SMFC) and SMSH (PeopleSoft Human Resources Management System) were to be combined into one group with the symbol SMSH, and the title Human Resources Management System and Compensation Services. Among the stated objectives of this move is the facilitation of the eventual interface of the PeopleSoft system with the On Line Pay system of Public Works and Government Services Canada (PWGSC). The Acting Manager of the Compensation Services unit now reports to the Deputy Director of SMSH.

The rationale supporting the Team's recommendation to move Compensation Services to the Human Resources (HR) Branch remains unchanged. The HR domain is still the natural home for the compensation function. The benefits to be derived from the proposed move include enhanced harmonization of policies and procedures and staff career progression. As an element of long-term planning SMD should consider moving the compensation services function to the HR Branch when conditions warrant.

AUDIT OBJECTIVE

The audit objective was to provide management with an assurance of the adequacy of the existing management control framework and practices, and of the economy and efficiency of Compensation Services' business processes and internal controls. The audit also included an analysis of the effectiveness of Compensation Services' organizational placement within the Department.

SCOPE AND APPROACH

The audit of Compensation Services was conducted between October and December, 2001. The Audit was scheduled as part of SIV's annual Internal Audit Plan 2001/02, approved by the Department of Foreign Affairs and International Trade (DFAIT) Audit and Evaluation Committee. It included an examination of selected compensation activities as well as the centralized common service and cheque distribution functions of the Call Centre. Organizational linkages with the SMD and the Human Resources Policy and Operations Bureau (HRD) were also reviewed.

The Compensation Services unit provides pay, pension, benefit, insurance, overtime, leave, counseling, outreach services to departmental employees. The quality of the delivery of these services is an important aspect of employee well-being, and the impact on clients of errors and delays can range from frustration through annoyance to actual hardship in extreme cases (e.g., if an overpayment must be recovered, or if the wrong pension advice is provided).

The Audit Team included a consultant with expertise in pay and benefits procedures who was retained to conduct a review of selected files and their related procedures. Fifty-nine employee files were selected at random. The pay card, the DFAIT paper file and the corresponding electronic file in the PWGSC On Line Pay system were compared for completeness and accuracy. The Audit Team conducted a desk-by-desk backlog survey, as well as a comparison of selected transaction processing times vis-à-vis the relevant service standard.

The Team interviewed Compensation Services management and staff, and departmental stakeholders. Outside the Department interviews were held with officials of PWGSC (Shared Human Resources), Treasury Board Secretariat (Human Resources Community Secretariat), the President of the Association of Compensation Managers, and the managers of six government departments' compensation units (Canadian International Development Agency (CIDA), Justice, Finance/Treasury Board, Agriculture, PWGSC, and Department of National Defence (DND)).

BACKGROUND

1.1 Departmental

1.1.1   As part of the departmental reorganization of human resources and corporate management services that took place in September 1999, the Compensation Services Unit became part of the Department's new Corporate Services Branch. Compensation Services (formerly SMFC), was at that time one of the sections within the Financial, Compensation and Contracting Services Division (SMF). Compensation Services has a total FTE complement of 28, of which 18 are Compensation Advisors (CAs).

1.1.2   A number of organizational changes have taken place within Compensation Services over the last several years. The dedicated quality assurance unit which consisted of both training and specialist verification was eliminated. CAs have been reclassified to AS-02 from CR-05, and counseling duties have been added to their responsibilities. The assignment of Supervisors and CAs was realigned, and a Call Centre was introduced.

1.1.3   The Director of SMF has undertaken a number of initiatives to improve the overall efficiency of Compensation Services' operations. The consultant firm of Price Waterhouse Coopers (PWC) was retained in the Spring of 2000 to conduct a study of Compensation Services' client services delivery, operational linkages with other departmental Human Resources functions, the efficiency of internal processes, and to conduct a client opinion survey. The opinion survey report was issued on March 26, 2001, and the study report on June 29, 2001.

1.1.4   The PWC opinion survey report indicated an overall client satisfaction with compensation services as 46% satisfied, 27% no opinion, and 28% not satisfied. A note of caution is required, however, when interpreting the foregoing percentages. It is not clear if employees had in mind only specific compensation services, or all the Human Resources services (e.g., staffing) that give rise to compensation transactions.

1.1.5   Compensation Services can only act on a compensation transaction when duly authorized, thus becoming the "final link" in the HR "chain". Errors and delays unfortunately can occur at any point in this "chain", leaving Compensation Services too frequently bearing the brunt of clients' ire, regardless of where in the chain a given problem arose.

1.2 Interdepartmental

1.2.1   The compensation services function throughout the federal government is going through a period of considerable evolution. Compensation work has significantly changed in recent years as a result of factors such as the following:

- increase in volume and complexity of collective bargaining agreements;
- devolution of processes from central agencies to departments;
- more complex rules for compensation and benefits;
- legal liability for provision of wrong pension and insurance advice;
- more articulate and demanding clientele;
- need for counseling on pay, pension and benefits options; and,
- high volume acting situations resulting from long staffing lead times.

1.2.2   Thus the perception of compensation services as being provided by minimally trained individuals performing straightforward transactions is no longer valid. Conservative and traditional approaches to the changing workload are proving to be inadequate. Departments' responses to the foregoing pressures are being guided by the Treasury Board's Human Resources Community Secretariat (HRCS) as part of its HR Reform process. Responses generally include upgrading competency profiles, recruitment and training, and re-engineering service delivery models.

1.2.3   According to the PWGSC deck "Compensation - Main Initiatives and Vision", dated January 8, 2002, PWGSC is modernizing its Pay and Pension systems. The On Line Pay system is a "Very large, complex and antiquated system, patched and re-patched over 30 years." The Pension Systems are "Fragmented and disjointed ... based on 30-year-old solutions (that) result in: poor service, lack of flexibility, ... (and are) expensive to operate."

1.2.4   Another initiative has been the formation of the Association of Compensation Managers. It works in close conjunction with the HRCS, and has national and regional representation and a system of subject matter sub-committees. Among other benefits it provides opportunities for reviewing common problems, and for sharing of best practices and alternative approaches to compensation service delivery.

OBSERVATIONS AND RECOMMENDATIONS

2.1 Management Control Framework

Planning

2.1.1   Compensation Services has a planning process in the form of an annual Action Plan (FY 2001-2002) and a six-month Action Plan to Improve Compensation Services (Sept 01- Mar 02). These plans list many worthwhile and some crucial projects and tasks, including the PWC consultants report recommendations. Unfortunately (but with some exceptions) there has been a lack of concrete action taken, follow up, or means of determining successful completion. These plans have not been recently updated.

2.1.2   While task and project lists are always necessary aspects of planning, the Action Plans the Audit Team reviewed are insufficient as guides to Compensation Services' continued development over the next several years. Compensation Services has a number of core business processes that are essential to the Department and its employees. Without clear and unequivocal statements of how Compensation Services expects to meet anticipated challenges, changing circumstances and demands for more efficient and effective services, progress will be limited and success undemonstrable. There is ample evidence from the compensation community's and Compensation Services' recent history that challenges and pressures have been many and dynamic. Therefore an equally dynamic and robust planning process is required that will provide strategic direction for the Department's compensation function over the next several years.

2.1.3   With such a planning process in place, risks can be assessed, objectives and priorities established, performance data gathered, sources of potential problems identified, and courses of action proposed. CA and Supervisor buy-in and cooperation will be an essential feature of implementing changes and resolving issues. Management for its part should respond by ensuring that concrete steps are taken in this regard, thereby engendering a sense of staff ownership of visible steps of progress. Both departmental senior management and Compensation Services' own staff should then be in no doubt regarding Compensation Services' future strategic position.

2.1.4   Finally and most importantly, related resource requirements (human and physical) can be substantiated by performance data and directly linked to objectives.

Recommendation for SMD

2.1.5   Compensation Services should develop and communicate to stakeholders goals, objectives and formal long-term plans to guide the delivery of compensation core business processes.

SMD Response

2.1.5   Ongoing. Annually, the Bureau has a planning retreat to determine the short and long-term plans. Each Division provides their plans for inclusion in the Department's Business Plan. Within the Corporate Management Systems and Policy Division, each section prepares an action plan that is reviewed on a weekly basis at the Divisional meeting. The compensation activities are addressed in the Human Resources Management System and Compensation Services Section Action Plan.

An Outreach Program will be developed by October 2002 in order to communicate the goals, objectives and plans to stakeholders.

Considerations for Re-engineering Business Processes

2.1.6   Within Compensation Services, workload (client accounts) is distributed among CAs by client occupational group. For example, some CAs specialize in the FS group and others the AS group, and so on. The rationale for this method of account distribution is that given the high employee mobility in DFAIT, clients will not have to change their CA every time they are re-assigned.

2.1.7   In the six Other Government Departments (OGD) surveyed, workload is invariably assigned on the basis of organizational unit. As a result, their CAs are generalists in terms of occupational groups. One department however has a specialist unit for EXs, and another department has specialists for EXs, and for Overtime and Leave. Their comment on DFAIT's practice is that with everyone being an occupational group specialist, it would be difficult to reassign workload quickly among CAs. It would also create uneven loading when activity increases with respect to a specific collective agreement. These may be valid points from an OGD perspective, but DFAIT's rotational and other aspects of high staff mobility should continue to be taken into consideration in any future consideration of re-engineering options.

2.1.8   There are two basic service delivery models currently being examined by the compensation community. The first involves specialization by function (pay, pension, insurance, etc.), and the second is a modified generalist model with the bulk of the workload being handled by generalists, and special projects, problems, complexities etc., being handled by specialists. Each of these models currently has a champion

department. Basically, the type of department and their clients' needs, taken together with evolving policies, procedures and tools, would be among the determining factors in choice and design of model.

2.1.9   Alternative methods of account distribution among CA's have been discussed at periodic intervals by Compensation Services management. Their intention is, however, not to introduce change to the current method for the short term.

Recommendation for SMD

2.1.10   As part of its long-term planning process Compensation Services should consider alternative methods of delivering compensation services, in view of the changes taking place within the compensation community.

SMD Response

2.1.10   This issue has been looked at in the past and it is difficult to assign work on the basis of organization due to the rotationality of the Department. Every time an employee changes assignment, it would be a change in pay list and compensation advisor. The issue has been further analyzed and it is felt that the current approach is the optimum and least disruptive for employees. In addition, other Departments were contacted and some are considering the approach used at DFAIT.

Management Information Systems

2.1.11   Compensation Services currently has insufficient data to control operations and to monitor performance. The main method of control is responding to complaints, which tends to promote a reactive style of management. In these circumstances the "urgent" tends to displace the "important", thereby promoting crisis management.

2.1.12   Processing service standards have been in existence for a number of years (e.g., first pay cheque for new indeterminate employees will be available the first pay day after working 10 days). There are a number of standards of this type for each business process or activity. They have been recently updated and are now on Compensation Services' Intranet web site. Unfortunately, Compensation Services has no means to determine whether or not the service standards are being met. Data is not being collected that meaningfully relates date of authority arrival in Compensation Services, effective date of appointment, transaction posting date, etc. A service standard without the data to indicate its accomplishment is no more than a general

statement of intent. With appropriate and reliable supporting data, service standards become a powerful management control tool.

2.1.13   To illustrate the foregoing the Audit Team surveyed 57 transactions involving employees entering or leaving the department (TOS/SOS), increments, acting assignments, promotions, and miscellaneous. We calculated the number of calendar days between the effective date of the transaction and the date of its posting to the On Line Pay system. This time period was then compared to its standard expressed in calendar days, with the following results:

	Total Cases	No. Within Standard	% Within Standard
TOS/SOS	8	6	75%
Increments, Acting, Promotions, Misc.	49	19	40%

In the case of increments, acting, promotions, and miscellaneous, the standard was 60 calendar days, and the average processing time for the 49 cases was 127 calendar days, approximately twice as long.

2.1.14   This result must be interpreted carefully for the following reasons:

- There is no indication of when the transaction was authorized, or else received in Compensation Services. We have used only the effective date and the posting date in this exercise.

- The effective date could be retroactive.

Therefore the 127 days average processing time is what a client might notice, whether or not it is can be attributed to Compensation Services processing alone, or in conjunction with other steps in the HR processing chain. This is the same problem described earlier in the Background with respect to interpreting the results of the PWC consultants' client opinion survey. It underscores the need for reliable service standard data that unambiguously reflects Compensation Services' actual performance.

2.1.15   Compensation Services has not specified the data and information required in order to indicate how well the Section is performing. Such indicators would include backlog and workload data, error rates and their causes, trend analysis, service standard achievement, outreach activity results, complaints by type and frequency, and special project performance. Without reliable data and information on performance, it is extremely difficult to detect problems and to specify the actions and resources required for their solution.

2.1.16   Such data and information is also necessary in situations where the performance of individuals is an issue. A few cases were noted by the Audit Team during the course of the Audit. Performance data and information can be used as a means to correct undesirable performance trends.

Recommendations for SMD

2.1.17   Compensation Services should identify and collect the data and information required to assess performance against its service standards.

SMD Response

2.1.17   Underway. A consultant was engaged to review and develop service standards, procedures, and work measurement and tracking tools so that performance can be assessed. The final consultant's report has been provided and an analysis will be required to determine the approach and implementation. In addition, we were in contact with SXD to investigate methods of tracking e-mails and voice mails and there is no existing technology currently available. We will also contact other Departments to determine what is being used in other call centres. Target date: November 30, 2002.

Roles and Responsibilities for Monitoring Performance

2.1.18   CAs, and Supervisors, have a key role in monitoring operational performance trends (including service standard achievement and actual and potential backlog situations), and forwarding their observations to management. Similarly, management must clearly convey performance expectations and identify areas of special interest. The PWC consultant's report commented on intra-office communication problems and their impact on morale.

2.1.19   Following an internal meeting of senior Compensation Services staff on the subject, roles and responsibilities for the Deputy Director and all the Supervisors were drawn up and distributed. Roles and responsibilities for CAs, even though largely understood, were not included. Finally, there was no mention of roles and responsibilities for performance monitoring and the generation of the related information.

Recommendation for SMD

2.1.20   Compensation Services should update and formally distribute roles and responsibilities for staff at all levels, including the monitoring

and use of management control information within a formal reporting structure.

SMD Response

2.1.20 **Underway. Roles and responsibilities were documented and distributed to the staff in October 2001.**

In addition, a consultant was engaged to review and recommend mechanisms to assist in the monitoring of information. The consultant's report has addressed: the requirements for the development of a management information system to assist in monitoring and measuring work; updated processing priorities; desk procedures for staff; and a listing of the types of training required for new staff. The resulting information will be shared with the staff.

Complete. The compensation management team has prepared a number of checklists for the compensation advisors to assist them in their work.

Processing Priorities

2.1.21 The staff of Compensation Services have a strong sense of priority. For example, the service standards for clients entering or leaving DFAIT on a permanent or specified term basis is shorter than those for ongoing employees, and this is reflected in the CAs' actions. The regular two-weekly pay period deadlines dominate process timing. If one such deadline is missed, then the client must wait for another two weeks. Special projects all have their own deadlines, especially those relating to collective agreements. Although priorities are well known on an informal basis, management should set out Compensation Services processing priorities on a formal basis.

Recommendation for SMD

2.1.22 **Compensation Services should update and formally communicate processing priorities to all staff.**

SMD Response

2.1.22 **Ongoing. Processing priorities are being documented and will be communicated to staff. In addition, the results of the consultant's review will be provided to staff.**

Specialist Verification

2.1.23   Similar to other government department's practices, Compensation Services has an internal system of peer verification of transactions. Some CAs record error data as part of the verification process. This data is neither collected nor forwarded consistently, and is not used at the Supervisor or management level for purposes of control. Accordingly, the current peer verification process is not an effective means of control. Compensation Services used to have dedicated specialist verification in past years, but the resources for it were downsized and peer verification was implemented.

2.1.24   The PWC consultants report recommended that existing verification procedures should be reviewed in terms of procedures and expected benefits. They noted that although verification was taking place, there were few tangible results.

2.1.25   OGD compensation units practice peer verification, but their managers stated that they would much prefer dedicated specialist verification. This view was also reflected during interviews with HRCS and the Association of Compensation Managers. They stated that a problem with peer verification is that it tends to check only a transaction's calculations and the data entry. It does not challenge the validity of the transaction itself, as would take place under specialist verification. Specialist verification also provides a uniform process, which means that data on errors and service standard adherence can be objectively gathered from a single source. At this time it is considered that Compensation Services could set up dedicated specialist verification by means of internal workload reallocation.

Recommendation for SMD

2.1.26   Compensation Services should review the current verification process with a view to re-establishing dedicated specialist verification.

SMD Response

2.1.26   This is under review and Management will be assessing options.

Annual Appraisals

2.1.27   Compensation Services has not completed annual appraisals on its staff for some time, although this has been listed on the 2001/2002 Action Plan.

2.1.28   Where individual performance is an issue, the formal performance appraisal is an important tool in addressing such situations.

Recommendations for SMD

2.1.29   Compensation Services should complete annual appraisals on all staff as a formal tool of performance assessment and feedback.

SMD Response

2.1.29   Draft appraisal reports have been prepared and will be finalized by October 30, 2002.

Training

2.1.30   Compensation Services needs a formal and consistent training plan that addresses the needs of all staff, senior as well as junior. New CAs expressed a need for more training. The training that they did receive they considered to be inconsistent. Training should be linked to the competency profiles, and followed up in the annual appraisal process.

2.1.31   Compensation Services used to have a dedicated training position, but this position disappeared when the Quality Assurance unit was dissolved. At present supervisors are responsible for training, among their other duties, but have little time to provide the necessary attention and support. Special attention needs to be paid to counseling on pension and benefits options.

2.1.32   As PWGSC and Treasury Board Secretariat (TBS) manuals are available on line, finding specific information requires some internet research knowledge. Some inefficiencies exist for those who have not yet developed internet research skills.

Recommendation for SMD

2.1.33   Develop a formal training plan addressing needs of all staff, linked to competency goals and followed up in the annual appraisal process.

SMD Response

2.1.33   Underway. Formal and on-the-job "buddy" training is currently provided to all staff. We are also in the process of developing learning plans for all staff by the end of October. Compensation staff has also recently attended Client Service Training.

Training and Reference Manual

2.1.34   The operational policies and procedures in place in Compensation Services generally are those of PWGSC and TBS. Although very good, they are

designed for use by all departments. They need to be interpreted and supplemented by internal Compensation Services policies and procedures. A Compensation Services Training and Reference Manual has existed for some time, but has become outdated. Updating this manual would benefit all staff, especially trainees. It should form part of the desk practices standardization process.

2.1.35   Compensation Services has a Head, Policy Interpretation position, and the incumbent among other duties provides detailed procedures for all special projects as they arise. The Staff interviewed were satisfied with the quality of special project procedures, but felt that Compensation Services was given insufficient lead time on many of them, which increases the pressure to meet deadlines.

Recommendation for SMD

2.1.36   Update the Compensation Services Training and Reference Manual as part of the desk practices standardization exercise.

SMD Response

2.1.36   Underway. Documentation is available on-line via the Intranet. Desk procedures were prepared by the consultant and will be shared with staff by October 2002.

Outreach

2.1.37   Current outreach activities include a two-hour presentation on pensions during the regular SERV two day Retirement Seminar, and compensation presentations for pre-posting briefing courses. Service standards, roles and responsibilities, telephone listings and a variety of items of compensation information have all been posted on Compensation Services' Intranet web site.

2.1.38   A crucial item of outreach for mutual benefit will be the combining of both compensation and human resources outreach information at the same access points, e.g., web sites, formal publications, reference tools, etc. The HR Branch has recently issued two significant HR information documents, the "HR Handbook for Managers at HQ", and "Human Resources Service Standards". Compensation Services information should be available at the appropriate place in both of these documents, as well as in any other HR information, reference document or checklist in which compensation services has a role.

Recommendation for SMD

2.1.39   Compensation Services should liaise with departmental Human Resources counterparts with a view to having compensation

services information combined as appropriate with all relevant human resources outreach information.

SMD Response

2.1.39   Underway. As noted under 2.1.5, in addition to the pre-posting and pre-retirement sessions, meetings with human resources (rotational and non-rotational) are ongoing. Work has commenced on an Outreach Program and this will entail meeting with clients to outline the objectives, plans, services and standards provided by Compensation Services.

Implementation of Improvements

2.1.40   It is imperative that the process of implementing the improvements mentioned in this Report does not jeopardize ongoing operations and their associated deadlines. This criterion will inevitably limit the rate of improvement implementation if Compensation Services is required to proceed solely on its own initiative, and without support from elsewhere in the Department. The Audit Team believes that a person with management experience should be engaged on a short-term basis to assist the A/Manager with the process of improvement. This person's role would be that of mentor/consultant, who would among other duties take on special projects, monitor implementation and work with staff and Supervisors on various improvement tasks.

Recommendation for SMD

2.1.41   Compensation Services should engage a resource person with management skills and experience to assist in the process of implementing improvements.

SMD Response

2.1.41   With the recent re-organization of Compensation Services under the Deputy Director of SMSH, the Acting Manager of Compensation Services and the review by the consultant, it is felt that it is not required to engage a resource person. Improvements and changes have been made and continue to be made to enhance the service provided by Compensation.

2.2 Internal Controls

Section 33 Signatures

2.2.1   In accordance with Treasury Board's "Comptrollership Policy on Pay Administration", Section 33 of the Financial Administration Act can be exercised within either the financial or personnel domain. The prime condition is that the authority must be formally delegated. Section 33 is now exercised within Compensation Services by the Deputy Director, and the Head, Policy Interpretation. Although it has been formally delegated by position, it has not been updated with respect to current acting incumbents.

Recommendation for SMD

2.2.2   Compensation Services should ensure that FAA Section 33 authority is updated with respect to current acting incumbents.

SMD Response

2.2.2   Completed. Section 33 authority has been updated.

Pay Cheque Distribution

2.2.3   The Treasury Board's "Policy on Control of Receiver General Cheques" is categorical on how cheques are to be distributed once received in a department from the issuing authority. Cheques may not be distributed by an entity that had any part in their preparation. OGD practice is uniform in that all salary cheques are distributed by Finance. Compensation Services, in contrast, distributes all its own cheques except those for emergency salary advances. These cheques are picked up at the Cashier's Office, the logical place for such action. Compensation Services devotes an estimated 0.5 FTE within the Call Centre to cheque distribution.

Recommendation for SMD

2.2.4   Compensation Services should cease distributing pay cheques.

SMD Response

2.2.4   Agree with this recommendation. The function could be transferred to the Cashier's Office. This will require consultation with SMF. Target date: October 2002.

Pay Card Protection

2.2.5 Pay cards are hard-copy records of an employee's entire remuneration history, and contain basic employment, benefits, insurance and retirement related data. As such they contain a wealth of sensitive personal protected data. Compensation Services stores these records in covered but unlocked shelves. As such they are accessible after hours to anyone with access to Floor D3.

Recommendation for SMD

2.2.6 Compensation Services should lock up pay cards when not in use.

SMD Response

2.2.6 Completed. Pay cards are locked up.

PWGSC Audit

2.2.7 The Shared Human Resources Bureau of PWGSC has recently developed a capacity for conducting rigorous and in-depth compensation file audits. These audit services are available to government departments on a cost-recovery basis.

2.2.8 The Team met with the Director of Shared Human Resources, and the Manager, Compensation Group, and reviewed their methodology. The Audit Team believes that a file audit in Compensation Services conducted by PWGSC would be very beneficial. Two file audits conducted one year apart should provide a good indication of improvements effected in the interval, and provide independent assessment of service quality.

Recommendation for SMD

2.2.9 Compensation Services should engage PWGSC (Shared Human Resources) to conduct an independent audit of compensation files, procedures and transactions.

SMD Response

2.2.9 With the recent audit of SIV, the analysis by PWC, the review by the independent consultant, and the recent statistical sampling carried out by the Office of the Auditor General, it is felt that engaging PWGSC to conduct an independent audit is not necessary. However, this option could be considered at a later date.

2.3 Business Processes

Backlogs

2.3.1   As there was no information available relating to processing backlogs, the Audit Team conducted its own backlog survey. Of over 2000 transactions in inventory, 61% was current workload, 8% was between one and two months old, and approximately 27% was over two months old. A few desks carried significant unorganized backlogs with no plans or directions to deal with them. As a result the percentage of transactions over two months old is understated. In contrast, other desks were well maintained and carried no backlogs. The results of this survey were communicated to all Compensation Services staff by the Team.

2.3.2   Backlogs are a perennial problem, and have two main causes, a sudden surge in the workload, or a resource gap on a desk caused by the absence of the CA. On occasions a CA is assigned the workload of another desk that has been vacant for some time. The results are the same - delays for the client and depleted morale for the CA while both current and pending transactions are processed simultaneously. In these situations, lower priority workload tends to be deferred, such as leave cashouts and leave audit corrections.

2.3.3   Inevitably, backlogs will always be present, but their adverse effects on quality of service and efficiency can be minimized by two main approaches. The first is "gap management", and the second is knowledge provided by transaction inventory ageing statistics.

Recommendation for SMD

2.3.4   Compensation Services should develop a system for monitoring and controlling backlogs caused by workload surges and employee absences.

SMD Response

2.3.4   Ongoing. We are focussing on quality control in a number of ways such as: an acting manager is monitoring the situation; supervisors are responsible to monitor the work of the compensation specialists and ensure service standards are being met; a consultant has provided a report addressing monitoring and tracking tools that could be used to control backlog; and we are investigating best practices in other departments. Target date: December 31, 2002.

Consistency of Desk Practices

2.3.5   The problem of inconsistent desk practices was raised by the Director of SMF at the start of the audit. It was also raised by Compensation Services management, Supervisors, and CAs during the course of the audit, and was also evident from our file review. The PWC consultant's report recommended that consistent practices be implemented, and noted that well-organized desks had little backlog.

2.3.6   CAs do not process their transactions, maintain their documentation, deal with correspondence, and organize their workload in the same manner. This makes it difficult for one CA to take over the workload of another. During the review of selected employee files, we noted that the files were in poor condition. The paper files and pay cards were inconsistently maintained, were missing key supporting documentation, contained misfiled documents, and were not up-to-date.

2.3.7   Inconsistency of desk practices, when taken together with differing backlog situations, gives rise to variable service quality. Clients should not see a level of service that varies with the processing desk.

2.3.8   The implementation of consistent desk procedures should begin as soon as possible. There is ample evidence of best practices within Compensation Services to use as models.

Recommendations for SMD

2.3.9   Compensation Services should review desk procedures with a view to developing and maintaining standard procedures for all CAs.

SMD Response

2.3.9   Underway. The desk procedures prepared by the consultant have been received and are being analyzed for implementation. Target date: November 30, 2002.

PC Capacity

2.3.10   All compensation transactions are processed on the CA's personal computer. CAs all have On Line Pay accounts with PWGSC, in addition to the regular DFAIT desktop. Manuals and all reference material are now only available on-line via internet from the TBS and PWGSC. This has led some OGD compensation units to have two PCs for each CA, one set on the TBS and PWGSC internet sites, and the other on On Line Pay. The intent is to save time switching from one system to the

other, and to increase the propensity of CAs to consult the on-line authorities more frequently.

2.3.11 A high volume of information and calculators (spread sheet macros for calculating pay transactions) comes from TBS and PWGSC. This information is sent in non-DFAIT supported software, such as MS Word and Lotus. As a result, copies of additional software must be installed on Compensation Services' PCs in order to download, edit and print this material efficiently. Where this additional software has not been installed on all PCs, the material (e.g. standard TB letters) must be edited by hand after downloading before they can be sent to clients.

2.3.12 Most of the PCs for the CAs have 64 mb of RAM. Compensation Services management feel that because of their high usage, 256 mb is warranted. Two PCs per advisor is not considered necessary if memory capacity is increased. Certainly any increase in PC capacity would have a positive effect on processing efficiency, for the benefit of clients.

Recommendation for SMD

2.3.13 **Compensation Services should review the current Compensation Advisors' desktop PC capacity, with a view to preparing a business case for upgrading memory capacity.**

SMD Response

2.3.13 **Complete. The Information Management and Technology Bureau (SXD) has replaced 18 of 28 PCs as part of the cyclical replacement program.**

COMPENSATION SERVICES ORGANIZATIONAL PLACEMENT

3.1.1   The Audit Team was requested by the Director of the Financial, Compensation and Contracting Division (SMF) to review Compensation Services' current organizational reporting relationship within the Department. Our recommendation is that it should be transferred from the Corporate Services Branch to the HR Branch, for the reasons set out below. The PWC consultants report also contains a recommendation to the same effect, and the senior management of both Branches had indicated their initial agreement to this move.

3.1.2   The Team's rationale for moving Compensation Services to the HR Branch is as follows:

- Compensation activities are universally recognized as HR functions;

- The evolution taking place within the compensation community across government is being guided by Treasury Board (HRCS) as part of its HR Reform process;

- With Compensation Services located within the HR branch, compensation policies, practices and outreach activities can be blended much more easily with their related HR functions;

- There are direct operational linkages with various sections within HR Branch, notably Staffing and Staff Relations; and,

- Career progression within the HR Branch would be enhanced for the staff of Compensation Services, and conversely for HR staff.

3.1.3   The Audit Team was informed by officers within the HR Branch that consideration is being given to the creation of a departmental compensation policy function within the HR Branch. This would have a positive effect on the integration of compensation policies and activities within the HR Branch, and would improve the flow of compensation policy advice to senior management.

3.1.4   After the above recommendation was discussed with the management of both Branches, SMD announced on March 4, 2002 that Compensation Services (SMFC) and SMSH (PeopleSoft Human Resources Management System) were to be combined into one group with the symbol SMSH, and the title Human Resources Management System and Compensation Services. Among the stated objectives of this move is the facilitation of the eventual interface of the PeopleSoft system with the On Line Pay system of PWGSC. The Acting Manager of the Compensation Services unit now reports to the Deputy Director of SMSH.

3.1.5　　　　The rationale supporting the Team's recommendation to move Compensation Services to the HR Branch remains unchanged. The HR domain is still the natural home for the compensation function. The benefits to be derived from the proposed move are as set out above, especially those of enhanced staff career progression.

Recommendation for SMD

3.1.6　　　　As an element of long-term planning consider moving the compensation services function to the Human Resources Branch when conditions warrant.

SMD Response

3.1.6　　　　It is felt that the focus of compensation can either be on human resource functions or on financial transactions and processes such as pay, pension, overtime, and acting pay. As such, the placement of that function can rightfully be either in SMD or in HR, depending on the operational demands at play. In the short term, the placement within SMD provides enhanced linkages essential to support the significant efforts underway in SMS for the integration of the department's resource management information systems, and for the implementation of the pay interface with PWGSC's Pay On Line system.

The longer-term placement of Compensation will be the subject of further analysis and discussions with Human Resources.

Close cooperation between the two organizations is essential. Effective communication and linkages are in place with the appropriate areas in human resources and with the User Group established with users from Compensation, Human Resources, Area Management offices, Finance, and Training.