

**Department of Indian Affairs and Northern Development
Corporate Services
Departmental Audit and Evaluation Branch**

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**Audit of the Work Force
Adjustment Directive and the
Early Retirement Incentive Program**

**Project 96/07
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Background

The Treasury Board provided direction to departments and agencies for the sound management of employment adjustment programs. To assist departments in managing these activities the government introduced two new incentive programs: the Early Departure Incentive program (EDI) and the Early Retirement Incentive program (ERI). These programs do not replace the existing Work Force Adjustment Directive (WFA) but complement it. The WFA is designed to help “surplus” Public Service employees whose jobs are eliminated. This help includes finding work within the federal government, unless these employees choose to leave the Public Service.

The EDI applies to those departments which are designated by the Treasury Board as “most affected departments.” DIAND is not so designated, therefore, only WFA and ERI apply to DIAND and are subject of this audit. All departments are required to provide assurance of compliance, with these directives, to the Treasury Board.

Objectives and Scope

The objectives of the audit were to provide an assessment of the application of the WFA and the ERI directives by DIAND and to determine the degree of compliance with central agency and departmental directives with due regard for economy, efficiency and effectiveness.

The audit scope covered WFA/ERI actions taken during the period from April 1995 to June 1996 in the Atlantic, Ontario, Saskatchewan and NCR regions. The number of actions taken, during this time period, was 50 in the above regions and 35 in the other regions. The audit reviewed all 50 cases in the Atlantic, Ontario, Saskatchewan and NCR regions.

Approach

The approach to the audit focused on all 50 cases included in the scope. For each of these cases, the review included testing of the calculation of benefits provided and confirming the eligibility of employees under the directives. Also, we examined whether or not the employees' duties were eliminated. This was done by comparing organization charts before and after the employee was declared surplus, reviewing job descriptions and having discussions with their respective managers. The audit reviewed management of the WFA process, both at headquarters and in the regions. This was accomplished through interviews and reviews of documentation. In addition, in consultation with the management, a small sample of ten employees, not affected by work force adjustment situations, at headquarters and the three regions were interviewed to assess the WFA impacts.

General Assessment

Based on our review, the Atlantic, Ontario, Saskatchewan and NCR regions of the department were in compliance with the WFA/ERI directives and central agency and the departmental policies and procedures.

Key Observations

In 16 of the 50 cases reviewed, errors of over or under payments, ranging from \$20 to \$600 were found in the calculation of the amount of the Pay in Lieu of Unpaid Surplus (cash out) or the amount of the Severance Pay, paid out to the departing employees under WFA/ERI actions.

In the Ontario Region, a school principal and five teachers were provided benefits under the application of ERI, excluding cash out, although their positions were not eliminated. This was due to circumstances beyond the control of the region where a planned devolution of schools to First Nations did not occur. However, the propriety of the application of WFA/ERI directives to these cases has been substantiated by the department by obtaining a legal opinion from the Department of Justice Canada in an earlier case of a similar principle.

Key Recommendations

The Director General, Human Resources Branch, Corporate Services implement national procedures to ensure employees involved in calculation of departure benefits are aware of the appropriate formulas for calculation of WFA/ERI benefits and the calculations are verified by a supervisor before they are being paid to departing employees.

Background

This Audit of the Workforce Adjustment (WFA) Directive and the Early Retirement Incentive (ERI) Program was included in the Departmental Audit and Evaluation Branch's 1996-1997 Plan, which was approved by the Departmental Audit and Evaluation Committee (DAEC). As well, Treasury Board requires assurance of compliance with regulations pertaining to the WFA and ERI.

The WFA Directive is Treasury Board's policy for mitigating the effects of layoffs on federal public servants. The directives, applicable to the period of the audit, took effect on December 15, 1991 and applied to indeterminate employees appointed to positions which were affected by contracting out, privatization and devolution. The directive guaranteed a reasonable job offer as well as incentives to encourage employees to leave the Public Service. These incentives include Pay in Lieu of Unfulfilled Surplus Period (also known as cash out), the Separation Benefit, Retention Payment or Turnkey Payment in addition to Severance Pay.

In response to reductions in work volume, improvements in automation of manual activities, and other activities resulting in WFA situations, the government also legislated the Early Departure Incentive (EDI) and Early Retirement Incentive (ERI) programs. The ERI is available from April 1, 1995 to March 31, 1998, and the EDI is available from July 15, 1995 to June 23, 1998. However, EDI only applies to "most affected departments" and because DIAND is not a most affected department, it is not applicable to DIAND.

ERI provides departing employees who meet certain criteria with the opportunity for unreduced pensions. It is available to all surplus employees who are at least 50 years old, have five years of pensionable service and ten years of Public Service employment. Eligible employees who choose ERI will receive pensions based on years of service. Without ERI, employees would have their pensions reduced by five percent for each year of age less than 55.

Objectives

The objectives of the audit were to assess:

- compliance with the Treasury Board's policies and directives for WFA and ERI; and
- the adequacy and effectiveness of management systems, controls and practices to ensure such compliance with due regard for economy, efficiency and effectiveness.

Scope

The scope of this audit covered the period from April 1995 to June 1996 in the Atlantic, Ontario, Saskatchewan and NCR regions. During this period, 85 WFA actions took place in DIAND. Of these, 50 WFA actions which took place in the following regions were covered under this review:

- National Capital Region (NCR) - 29 cases;
- Atlantic Region - 5 cases;
- Ontario Region - 10 cases;
- Saskatchewan Region - 6 cases.

Methodology

The audit methodology included the following lines of inquiries resulting from the objectives and the scope of the audit:

- verifying the decision making process re: WFA/ERI in terms of legality, validity, equity, efficiency and effectiveness;
- reviewing the degree and manner of compliance with WFA Directive and ERI terms and conditions;
- assessing the adequacy and effectiveness of functional directions and monitoring from headquarters to regions, and communications between headquarters and regions;
- evaluating effects of WFA/ERI on the target groups and steps taken to ensure that the target groups are not adversely affected;
- verifying effects of WFA/ERI on employees' morale, health and productivity; and
- reviewing best practices in the application of WFA/ERI directives.

Best Practices in the Application of WFA/ERI Directives

During the conduct of the audit, several best practices were observed. For example, the Employment Support Services Directorate, Human Resources Branch at headquarters had developed a binder which contained all the policies and procedures pertaining to WFA and ERI. This binder was a constructive aid to management as reference material for WFA and ERI applications. The binder was distributed to all regional Human Resources divisions to follow. Similarly, the binder was further distributed to all RCMs in the Ontario Region. Thus, it eliminated duplication of research and collection of appropriate information and regulations pertaining to WFA and ERI applications.

The Ontario Region also prepared worksheets that detailed the calculations of WFA benefits. These worksheets were included in the pay files of the departed employees. They facilitated understanding the calculations and provided an audit trail. Our review of these calculations in the Ontario Region has shown that they were accurate.

The Atlantic, Saskatchewan and NCR regions prepared detailed letters for departing employees describing their superannuation benefits, lump-sum payments, and other entitlements and relevant information. The letters provided a concise reference for the employees in terms of their entitlements and identifying the person to be contacted for responding to any enquiries. They served as an effective tool for the employees, as well as for follow-up in terms of information on the employee file.

Recommendation 1: The Director General, Human Resources Branch, Corporate Services should ensure that materials related to these best practices are assembled and distributed to other regions.

WFA/ERI Benefits Calculation Errors

Our review and comparison, with our own calculation of benefits by interpreting and applying the WFA and ERI directives, of benefits paid out to the affected employees have shown a significant number of over or under payment errors. Out of the 50 WFA/ERI cases reviewed, 16 cases, equivalent to 32%, had errors in calculation of the amount of the Pay in Lieu of Unpaid Surplus (cash out) or the amount of Severance Pay.

The error amounts ranged from \$20 to \$600, with the average error of \$145 per case. In 15 of the 16 cases, the employees were underpaid. Of these, 12 errors were related to the calculations of the cash out benefits, in the NCR. All of these errors had occurred during the first 12 months of the 15 months scope period, i.e., from April 1995 to June 1996. Although, the amounts involved are not large, the number of errors points to a need for improved internal controls. These cases and errors were discussed and concurred with the respective regional management personnel.

Recommendation 2: The Director General, Human Resources Branch, Corporate Services should follow-up with the respective regions to ensure that the appropriate corrective actions, for over or under payment errors, have been taken in the identified 16 cases. Also, all calculations of departure benefits in cases other than the 50 cases reviewed under the scope of this audit, should be independently verified to ensure accuracy of benefit payments made to the departed employees.

Recommendation 3: The Director General, Human Resources Branch, Corporate Services implement national procedures and internal controls to ensure that all calculations of departure benefits are adequately verified before they are finalized and paid.

WFA/ERI Benefits Paid in Special Circumstances

Our review of a number of WFA/ERI cases within the scope of the audit has shown the following unique cases of WFA/ERI applications in the Ontario Region. They are described in chronological order. These cases, as a result of uncontrollable events by the department, may seem to be in non compliance with the Treasury Board WFA and ERI directives. However, the propriety of the application of WFA/ERI directives to these cases has been substantiated by the department by obtaining a legal opinion from the Department of Justice Canada in an earlier case of a similar principle.

On February 15, 1994, under the application of WFA directives, letters declaring employees surplus status as of March 1, 1994, were sent out by the Ontario Region to all principals and teachers of seven federal schools managed by the department for the Indian students. This was due to planned devolution of the schools to First Nations. However, the negotiations with the First Nations on the transfer of schools to them were not successful. As a result, the employees' surplus period was extended on August 10, 1994, from March 1, 1994 to December 3, 1994 and again on November 7, 1994, it was extended to August 31, 1995.

On May 12, 1995, while the employees were still in surplus status, the Director, Employment Support Services Directorate, Human Resources Branch sent letters to the employees stating that they were eligible for ERI and they had 60 days to accept. This was based on a Treasury Board requirement to offer ERI to all surplus employees.

In June 1995, the five teachers and a principal replied that they wished to receive ERI and leave the Public Service, as they were entitled to do so. This entitlement is consistent with a draft legal opinion from the Department of Justice regarding the liability for a retention payment in a similar case. All six employees were given ERI. The employees did not receive a cash out (pay in lieu of unfilled surplus) as their positions were not abolished. The six positions have since been restaffed. Hence, there were no offsetting cost savings associated with this action.

On July 6, 1995, all remaining teachers were advised that in view of the First Nations' decision not to accept the transfer of the schools on September 1, 1995, their surplus status was rescinded.

Recommendation

None.

Impact of WFA/ERI on Employees Not Affected by Work Force Adjustment Situations

In consultation with the management of Human Resource Branch at headquarters and the selected regions within the scope of the audit, we interviewed a small number of staff, i.e., employees and supervisory personnel, working in areas affected by WFA situations. Based on these meetings, it was learned that the department's implementation of WFA was carried out in a constructive manner. Also, the coordinated efforts, initiatives and steps taken by the department, such as, information sessions, staff meetings, face to face individual meetings, open discussion, distribution of information material and counselling, were helpful in minimizing the overall impact of WFA actions on affected and non-affected employees. These steps included monitoring of WFA actions to ensure that there was no adverse trend of WFA actions on a specific group of employees under Employment Equity.

However, some of the interviewed staff felt that the stress level had increased due to workload and general uncertainties in the department and the Public Service. The implementation of WFA was not cited as a main reason for their concerns.

Recommendation

None.

Terms of Reference

TERMS OF REFERENCE**AUDIT OF WORKFORCE ADJUSTMENT (WFA) DIRECTIVE AND
EARLY RETIREMENT INCENTIVE (ERI) PROGRAM**

BACKGROUND: The WFA was introduced some years ago, and was revised in December 1991. It is designed to help “surplus” Public Service employees; that is, employees whose jobs are eliminated. This help is for finding work within the federal government, unless they choose to leave the Public Service.

A key element of WFA is a commitment by the government to provide a “surplus” employee with a reasonable job offer in the Public Service. Such employee has to be willing to relocate, or retrain if necessary.

In situations of “contracting out” and “privatization”, employees are guaranteed a job offer in the Public Service within 16 kilometres of their work place.

The government negotiated with the unions, and came close to an understanding, on a package of changes to the WFA. However, an agreement could not be reached. Hence, it legislated a series of measures catering to reductions in the size of the workforce for whom Treasury Board is the employer. These measures include ERI, and, an Early Departure Incentive (EDI) Program. EDI applies to those departments where reductions are so great that they cannot be handled under WFA. These departments are designated by the Treasury Board as “most affected departments”. DIAND is not so designated. Consequently, only WFA and ERI apply to DIAND, and, are the subject of this audit.

ERI is available to all surplus employees who are at least 50 years old, and, have 10 or more years of federal employment. They can receive a pension, based on their years of service, without any reduction for retiring early. Employees who opt for this incentive must leave the Public Service.

WFA provides that departments who are not designated as “most-affected”, surplus employees are entitled to receive one reasonable job offer in the Public Service. An employee who refuses a reasonable job offer is laid off.

Another option allows employees to take a leave without pay up to three months, and to have their reduced income spread out over the full year. Their pension and benefits would, nevertheless, be based on their full-time salary.

- NEED:** Treasury Board requires assurance of compliance with regulations pertaining to the WFA and the ERI.
- SCOPE:** The scope of this audit includes headquarters and the Atlantic, Ontario and Saskatchewan Regions. The period between April 1995 and June 1996 will form part of the scope.
- OBJECTIVES:** The objectives of this audit are to assess:
- compliance with Treasury Board's policies and directives for WFA and ERI; and
 - the adequacy and effectiveness of management systems, controls and practices to ensure such compliance with due regard for economy, efficiency and effectiveness.
- APPROACH:** The audit of the WFA Directive and ERI Program will be conducted in the following three phases:
- preliminary survey and evaluation;
 - fieldwork and analysis; and
 - reporting.
- RESOURCES:** The project will be implemented using contracted resources and will be managed by the Departmental Audit and Evaluation Branch.
- COST:** It is estimated that the contracted resources will cost approximately \$60,000.
- TIMEFRAME:** The audit planning will commence in October 1996 and the report will be completed by March 1997.

APPROVED BY:

B. DiBartolo
Assistant Deputy Minister
Corporate Services
August 30, 1996

Action Plan

AUDIT AND EVALUATION / VÉRIFICATION INTERNE ET ÉVALUATION

REQUEST FOR ACTION PLAN / DEMANDE DE PLAN D'ACTION

PROJECT / PROJET : 96/07
DATE SENT / DATE D'ENVOI: 97-05-22
DATE DUE / ÉCHÉANCE: 97-05-30

PAGE : 1 OF / DE : 1

PROJECT TITLE / TITRE DU PROJET : Audit of WFA Directive & ERI Program Audit

REGION OR BRANCH / RÉGION OU DIRECTION GÉNÉRALE : Corporate Services - Human Resources

(1) RECOMMENDATIONS / RECOMMANDATIONS	(2) REPORT / RAPPORT PAGE NO.	(3) ACTION PLAN / PLAN D'ACTION (If space provided is insufficient please continue on blank sheet. / Si vous manquez d'espace, veuillez continuer sur une page blanche.)	(4) RESPONSIBLE MANAGER / GESTIONNAIRE RESPONSABLE (TITLE / TITRE)	(5) PLANNED COMPLETION DATE / DATE PRÉVUE DE MISE EN OEUVRE
1. The Director General, Human Resources Branch, Corporate Services, should ensure that materials related to these best practices are assembled and distributed to other regions.	3	The Workforce Adjustment (WFA) Unit will re-issue the table of contents of the binder previously provided to all regions. The WFA Unit will also indicate to regions where further information can be obtained on these related subjects through the Human Resources Electronic Bulletin Board.	Director General, Human Resources Branch	97-09-30
2. The Director General, Human Resources Branch, Corporate Services, should follow-up with the respective regions to ensure that the appropriate corrective actions, for over or under payment errors, have been taken in the identified 16 cases. Also, all calculations of departure benefits in cases other than the 50 cases reviewed under the scope of this audit, should be independently verified to ensure accuracy of benefit payments made to the departed employees.	4	<ul style="list-style-type: none"> The Director General, Human Resources, will send letters requesting updates on the 16 cases, their resolution plan and schedule for completion. (Letters to be prepared by the Chief, Corporate Compensation). The Director General, Human Resources, will request regions to re-verify all calculations for departure benefits (cash-out and ERI) cases other than the 50 cases reviewed under the scope of this audit to ensure accuracy. 	Director General, Human Resources Branch	98-03-31
3. The Director General, Human Resources Branch, Corporate Services, implement national procedures and internal controls to ensure that all calculations of departure benefits are adequately verified before they are finalized and paid.	4	The Chief, Corporate Compensation, will prepare procedures and establish controls to ensure exact calculations.	Director General, Human Resources Branch	98-03-31