Indigenous and Northern Affairs Canada

Internal Audit Report

Audit of Expenditure Management (Including Salaries)

Prepared by:

Audit and Assurance Services Branch

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ACRONYMS

CFO	Chief Financial Officer
EAA	Electronic Authentication and Authorization
FAA	Financial Administration Act
GoC	Government of Canada
HQ	Headquarters
HR	Human Resources
INAC	Indigenous and Northern Affairs Canada
MyGCHR	My Government of Canada Human Resources
NAU	National Administrative Unit
PRM	Planning and Resource Management
PSPC	Public Services and Procurement Canada
SACO	Security Control Access Officer
TB	Treasury Board

EXECUTIVE SUMMARY

Background

The *Audit of Expenditure Management* (including salaries) was included in Indigenous and Northern Affairs Canada's (INAC) 2016-2017 to 2018-2019 Risk-Based Audit Plan. With the mandate of a renewed fiscal relationship with indigenous communities and the inclusion of an additional $8.4 billion over the next five years from Budget 2016 for INAC, expenditure management is an area of significant importance and will be subjected to increased public scrutiny to ensure due diligence and stewardship are exercised in the expenditure of such funds.

In August 2010, the Prime Minister announced that the Government of Canada would transform its pay administration. This initiative has two components:

- The pay modernization project (pay system), and
- The consolidation of pay services (compensation services).

The initiative, led by Public Services and Procurement Canada (PSPC) was implemented with the intent of ensuring the long-term sustainability of Government pay administration and services. Once fully implemented, PSPC would provide pay services to more than 300,000 employees of 101 federal departments and agencies.

The Government-wide initiative started by the consolidation of pay services, which will result in all departments and agencies being served centrally by the PSPC pay center, and that employees would become responsible for their own personal information and requests through self-serve applications. In 2012, INAC started the process of transferring all of its compensation advisors and services to the PSPC Pay Centre. This caused Work Force Adjustment issues for the compensation advisor team. The funding for these positions was transferred to PSPC and the Department implemented Liaison Officers to interact with the Pay Centre.

For the Pay modernization exercise, PSPC acquired a new system (Phoenix) to replace the existing Regional Pay System (RPS) that was in place for more than 40 years. Phoenix was deployed in two separate roll-outs, February and April 2016, and INAC was identified to be part of the first wave of implementation.

As planned, INAC's pay system was transferred to Phoenix in February 2016. The implementation of Phoenix, led by PSPC, resulted in a number of critical issues and challenges for departments and agencies for which they had no control. These implementation issues had an impact on INAC's salary expenditure processes, procedures and controls. Moreover, these challenges created unplanned additional work that had to be absorbed by INAC without necessarily having the resources in place. In many cases, INAC was dependent upon PSPC for information and updates regarding resolution of Phoenix issues.

In addition, in May 2016, INAC's existing departmental human resources application (PeopleSoft) was transferred to the My Government of Canada Human Resources (MyGCHR) system, which is a single, centralized instance of PeopleSoft for the GoC. MyGCHR is also supported by PSPC. The issues related to PSPC's implementation of Phoenix and MyGCHR

were ongoing and not fully mitigated as of the end of the audit period. As a result, the expenditure management environment in which INAC was operating during the audit period was very challenging.

Audit Objective and Scope

The objective of the audit was to provide assurance on the adequacy, efficiency and effectiveness of the management control framework supporting the management of departmental expenditures and to ensure that the control framework is based on sound principles and in compliance with applicable Treasury Board and INAC policies and procedures and relevant regulations.

The audit scope focused on current expenditure management processes at INAC that have not been addressed in recent audits, specifically:

- Budgeting and forecasting processes, including salary forecasting;

- Controls over INAC's HR and Pay processes impacted by the implementation of Phoenix and MyGCHR; and,

- SAP access and configuration related to expenditure management processes that have not been previously reviewed, specifically budgeting and forecasting and Financial Administration Act (FAA) Section 33 approval supported by Electronic Authentication and Authorization (EAA).

The time period for the audit was April 1, 2015 to June 30, 2016 to ensure that the most relevant processes and controls were reviewed based on the implementation of SAP, service hub structure, and the recent Phoenix implementation. Given the implementation of the Phoenix pay system in February 2016 and the implementation of MyGCHR on May 31, 2016, HR and payroll processes were reviewed as they apply to the new systems.

Statement of Conformance

This audit conforms with the *Internal Auditing Standards for the Government of Canada*, as supported by the results of the quality assurance and improvement program.

Positive Observations

The audit found several areas where strong practices were in place. Throughout the Department, a positive culture of collaboration was observed between HR Systems, the HR Service Centres, the National Administrative Unit (NAU), the Chief Financial Officer Sector and individual regions and sectors to go over and above their normal duties for the benefit of INAC employees to address HR and pay issues related to the implementation of Phoenix and MyGCHR.

One region had an established process to monitor salary forecasts on a monthly basis to ensure the accuracy, completeness and validity of salary information. This approach has enabled the region to more closely monitor data integrity issues relating to the Phoenix system implementation.

INAC has a well-established budgeting and forecasting process that includes adequate guidance for regions and sectors. Continuous improvement activities to support the process were noted. For example, a new initial budget allocation process was introduced in 2016-17 to streamline existing processes.

Conclusion

The audit identified areas for improvement related to the adequacy, efficiency and effectiveness of the management control framework supporting the management of departmental expenditures (including salaries). A number of issues were introduced with the transition to the new centralized GoC Phoenix system for pay and MyGCHR system for HR that were out of the control of INAC. Although INAC staff has gone over and above their normal duties to assist in addressing these issues, at the time of the audit, it was noted that accountability and clearly defined processes had not been developed within INAC for ensuring that all HR and pay transition issues were being managed within the Department in a coordinated fashion.

In addition, it was expected that an HR and Pay control framework within INAC would have been established to support the MyGCHR and Phoenix enabled HR and pay processes to ensure that risk areas within the Department's control relating to the validity, accuracy and completeness of HR and Pay transactions were identified and appropriately controlled. However, it was noted that an HR and Pay control framework within INAC has not been formally developed to support the new processes.

Additional gaps were identified related to a lack of evidence of review and monitoring related to budget transfers between regions and sectors before they are entered in SAP, and excessive access to SAP functionality allowing for the entering of budget information.

Recommendations

The audit team identified areas where management control practices and processes could be improved, resulting in the following three recommendations.

1. The Director General, Human Resources and Workplace Services Branch, with support from the Chief Financial Officer should continue to implement:

   - The required processes, and accountability within INAC to support the ongoing transition to Phoenix and MYGCHR; and,
   - The communication plan that aligns with PSPC to enable INAC to continue to inform INAC staff of new or emerging HR and pay-related issues and INAC's response to address next steps. This becomes increasingly important on a go-forward basis as INAC will need to anticipate and respond to changes at the PSPC Pay Centre.

2. The Chief Financial Officer and the Director General, Human Resources and Workplace Services Branch should:

   - Implement a process to document INAC's internal control framework for HR and Pay processes, outlining the controls that are the responsibility of INAC and identifying gaps that require mitigation. The process should support communication of key issues/risks between the Department and PSPC and be iterative in nature given that

HR and Pay processes remain in transition; and,

- Develop a training plan and training materials to support INAC staff in relation to HR and Pay processes.

3. The Chief Financial Officer should ensure that:

- Budget transfers are supported by the appropriate evidence of review and approval; and,
- There is ongoing monitoring and reviewing of access to SAP functionality, and where excessive access is found, it is removed.

Management Response

Management is in agreement with the findings, has accepted the recommendations included in the report, and has developed a management action plan to address them. The management action plan has been integrated in this report.

1. BACKGROUND

The *Audit of Expenditure Management (Including Salaries)* was included in Indigenous and Northern Affairs Canada's (INAC) 2016-2017 to 2018-2019 Risk-Based Audit Plan. With the mandate of a renewed fiscal relationship with indigenous communities and the inclusion of an additional $8.4 billion over the next five years from Budget 2016, expenditure management is an area of significant importance and will be subjected to increased public scrutiny to ensure due diligence and stewardship are exercised in the expenditure of such funds.

The Government of Canada (GoC) reinforces a results-based management approach to ensure that all spending is focused on results, provides value for taxpayers' money and is aligned with the government's priorities and responsibilities. The results-based management of expenditures uses a life-cycle approach by integrating planning, monitoring and reporting to improve decision making. Expenditure management within INAC is guided by a suite of pertinent policies, directives and guidelines in addition to the suite of policies set out by Treasury Board (TB).

In August 2010, the Prime Minister announced that the Government of Canada would transform its pay administration. This initiative has two components:

- The pay modernization project (pay system), and
- The consolidation of pay services (compensation services).

The initiative, led by Public Services and Procurement Canada (PSPC) was implemented with the intent of ensuring the long-term sustainability of Government pay administration and services. Once fully implemented, PSPC would provide pay services to more than 300,000 employees of 101 federal departments and agencies.

The Government-wide initiative started by the consolidation of pay services, which will result in all departments and agencies being served centrally by the PSPC pay center, and that employees would become responsible for their own personal information and requests through self-serve applications. In 2012, INAC started the process of transferring all of its compensation advisors and services to the PSPC Pay Centre. This caused Work Force Adjustment issues for the compensation advisor team. The funding for these positions was transferred to PSPC and the Department implemented Liaison Officers to interact with the Pay Centre.

For the Pay modernization exercise, PSPC acquired a new system (Phoenix) to replace the existing Regional Pay System (RPS) that was in place for more than 40 years. Phoenix was deployed in two separate roll-outs, February and April 2016, and INAC was identified to be part of the first wave of implementation.

As planned, INAC's pay system was transferred to Phoenix in February 2016. The implementation of Phoenix, led by PSPC, resulted in a number of critical issues and challenges for departments and agencies for which they had no control. These implementation issues had an impact on INAC's salary expenditure processes, procedures and controls. Moreover, these challenges created unplanned additional work that had to be absorbed by INAC without necessarily having the resources in place. In many cases, INAC was dependent upon PSPC for information and updates regarding resolution of Phoenix issues.

In addition, in May 2016, INAC's existing departmental human resources application (PeopleSoft) was transferred to the My Government of Canada Human Resources (MyGCHR) system, which is a single, centralized instance of PeopleSoft for the GoC. MyGCHR is also supported by PSPC. The issues related to PSPC's implementation of Phoenix and MyGCHR were ongoing and not fully mitigated as of the end of the audit period. As a result, the expenditure management environment in which INAC was operating during the audit period was very challenging.

2. AUDIT OBJECTIVE AND SCOPE

2.1 Audit Objective

The objective of the audit was to provide assurance on the adequacy, efficiency and effectiveness of the management control framework supporting the management of departmental expenditures and to ensure that the control framework is based on sound principles and in compliance with applicable Treasury Board and INAC policies and procedures and relevant regulations.

2.2 Audit Scope

The audit scope focused on current expenditure management processes at INAC that have not been addressed in recent audits, specifically:

- Budgeting and forecasting processes, including salary forecasting;

- Controls over INAC's HR and Pay processes impacted by the implementation of Phoenix and MyGCHR; and,

- SAP access and configuration related to expenditure management processes that have not been previously reviewed, specifically budgeting and forecasting and Financial Administration Act (FAA) Section 33 approval supported by Electronic Authentication and Authorization (EAA).

The audit scope excluded the areas of expenditure management covered by recent audits, such as contracting, payables at year-end (PAYE) and acquisition cards, travel and hospitality. Transfer payments were also out-of-scope of the audit as they were being addressed through other ongoing and planned audit activities and in particular the annually recurring internal audit of the management control framework for grants and contributions.

The audit team conducted fieldwork primarily at INAC headquarters, although site visits were conducted at two regional offices, Alberta and Ontario. The scope period for the audit was April 1, 2015 to June 30, 2016 to ensure that the most relevant processes and controls were reviewed based on the implementation of SAP, service hub structure, and the recent Phoenix implementation. Given the implementation of the Phoenix pay system in February 2016 and the implementation of MyGCHR on May 31, 2016, HR and payroll processes were reviewed as they apply to these new systems.

3. APPROACH AND METHODOLOGY

The audit was conducted in accordance with the requirements of the TB *Policy on Internal Audit* and followed the *Internal Auditing Standards for the Government of Canada*. The audit examined sufficient and relevant evidence and obtained sufficient information to provide a reasonable level of assurance in support of the audit conclusion.

The planning phase of the audit involved various procedures, including a review of preliminary documentation including TB and INAC directives, guidelines and policies related to expenditure management and interviews with management and staff. Based on this information, a risk assessment was completed to determine the scope of the audit. Appendix A details the audit criteria developed for this audit.

Based on the audit criteria, a detailed audit program including an assessment method for conducting transactional testing was developed, which drove the activities undertaken in the conduct phase. The conduct phase of this audit was performed at INAC headquarters and site visits were conducted in two regional offices, Alberta and Ontario. In order to provide assurance over the adequacy, effectiveness and efficiency of management's controls, the audit team engaged a variety of techniques including the direct testing of transactions and other controls, interviews and document review. Audit activities that were undertaken included the following:

- Interviews with management and staff within the Chief Financial Officer (CFO) Sector, including Corporate Accounting and Material Management – Financial System Training, Information Management Branch – Business Decision Support, Planning and Resource Management (PRM) Branch, and Financial Management Advisors;

- Interviews with the staff and management Human Resources and Workplace Services Branch, including staff within the National Administrative Unit (NAU), Strategic Human Resources and Executive Group Services, and HR Services Delivery and Data Integrity;

- Interviews with staff within Business Management Units and Cost Centre Managers at HQ and within selected regions;

- Audit testing related to budget transfers, forecasting, priority payments (salary and non-salary related payments) and emergency salary advances; and,

- Documentation review.

4. CONCLUSION

The audit identified areas for improvement related to the adequacy, efficiency and effectiveness of the management control framework supporting the management of departmental expenditures (including salaries). A number of issues were introduced with the transition to the new centralized Phoenix system for pay and MyGCHR system for HR that were out of the control of INAC. Although INAC staff has gone over and above their normal duties to assist in addressing these issues, at the time of the audit, it was noted that accountability and clearly defined processes had not been developed within INAC for ensuring that all HR and pay transition issues were being managed within the Department in a coordinated fashion.

In addition, it was expected that an HR and Pay control framework within INAC would have

been established to support the MyGCHR and Phoenix-enabled HR and pay processes to ensure that risk areas within the Department's control relating to the validity, accuracy and completeness of HR and Pay transactions were identified and appropriately controlled. However, it was noted that an HR and pay control framework within INAC has not been formally developed to support the new processes.

Additional gaps were identified related to a lack of evidence of review and monitoring related to budget transfers between regions and sectors before they are entered in SAP, and excessive access to SAP functionality allowing for the entering of budget information.

5. FINDINGS AND RECOMMENDATIONS

5.1 Transitional HR and Pay Process

The audit expected that an integrated and coordinated response would be developed by INAC to respond to issues related to the implementation of Phoenix and MYGCHR.

The implementation of Phoenix by PSPC resulted in a number of critical issues and challenges for GoC departments. Although not the responsibility of INAC, these implementation issues had an impact on INAC's salary expenditure processes, procedures and controls. In many cases, INAC was dependent upon PSPC for information and updates regarding resolution of Phoenix issues.

Although a positive culture of collaboration was observed between various stakeholders groups involved with rectifying the issues (e.g., National Administrative Unit, HR systems, HR Service Centres, CFO Sector, and employees at large) the audit found that roles and responsibilities had not been clearly defined or understood between the stakeholders. As experienced by numerous GoC departments, INAC was faced with high volumes of unanticipated HR and Pay processing issues arising from PSPC's MyGCHR and Phoenix systems implementation. In response, INAC personnel across the Department sought ways to address these issues even though these activities may have been "over and above" their normal job duties.

During the audit period, we found evidence that the Department was communicating regularly with staff and employees, although it was restrained by the challenges of obtaining timely info from PSPC. However, the communication may not have been effective or well understood by those involved with HR and Pay processes who had questions or issues while performing their roles and responsibilities, understanding accountabilities, or resulting process changes. For example, accountability and clearly defined processes have not been developed within INAC for ensuring that all HR and Pay transition issues are identified, logged, and monitored by a defined group. These groups within INAC have responded by developing their own methods of tracking and following up on issues that arise from using the new systems. This includes:

- Identifying, monitoring and managing salary adjustments including the backlog of unprocessed HR staffing actions (e.g. hundreds of staffing actions relating to acting pay, stop payments that have not been made for terminated employees, etc.).

- Ensuring that all related salary recoveries are identified and monitored by Finance in the case where salary overpayments have been made by the PSPC Pay Centre.

The Financial Situational Report process is performed four times per year which includes the annual salary forecast compared to commitment budget as well as variance analysis between the commitment budget and actual amounts based on the departmental financial system (SAP). The variance analysis is used as a financial management monitoring tool by sectors and regions; however, despite the salary data integrity issues as a result of the Phoenix implementation, this frequency of performing this process has not been adjusted to address the increased risk of incorrect salary data.

Recommendation

1. The Director General, Human Resources and Workplace Services Branch, with support from the Chief Financial Officer, should continue to implement:

   - The required processes, and accountability, within INAC to support the ongoing transition to Phoenix and MYGCHR; and,

   - The communication plan that aligns with PSPC to enable INAC to continue to inform INAC staff of new or emerging HR and pay-related issues and INAC's response to address next steps. This becomes increasingly important on a go-forward basis as INAC will need to anticipate and respond to changes at the PSPC Pay Centre.

5.2 HR and Pay Internal Control Framework

The audit expected that INAC had developed an internal control framework for its HR and pay processes consistent with Treasury Board's Policy on Internal Controls along with the Departmental Internal Control Framework. This would include controls related to the granting and reviewing of access to approval functions. Furthermore, it was expected that quality assurance activities would be established to monitor and look for enhancement opportunities to improve the framework.

INAC is responsible for salary management and commitment control, pay authorization and pay expenditure review. At the time of the audit, roles and responsibilities were not clearly defined between INAC and PSPC (as a service provider) given that they share joint accountability over the HR and Pay Control Framework. INAC did not have direct sight in regard to the effectiveness of controls performed by PSPC's Pay Centre and it was unclear as to how INAC would obtain comfort in this regard. It is also unclear as to how key issues or risks would be communicated and mitigated between INAC and PSPC.

Determining roles and responsibilities with PSPC is challenging given INAC has not designed or implemented all required key controls to identify the risks related to ensuring that HR and pay transactions are valid, accurate and complete. Areas in which key controls were expected but not observed included:

- FAA Section 33 certification is based on authorization with either no or very limited access to appropriate supporting documentation from PSPC. The HQ Pay Accounting team only reviews high risk transactions prior to FAA Section 33 approval. For the purpose of these reviews, INAC has defined high risk transactions as those related to severance pay. Other transactions are not subject to HQ Pay Accounting review.

- For emergency salary advances, audit testing identified instances where supporting documentation was not retained to evidence the Manager's FAA Section 32 approval of the employee's initial request. In addition, there were instances where supporting documentation was not retained to provide evidence that verification activities were performed by the Accounting Hub as part of FAA Section 33 certification.

- There are no post payment verification processes in place for pay transactions.

In addition, a common and documented approach has not been established to determine how data should be entered into MyGCHR and verified by INAC to ensure completeness, accuracy and validity of information. The controls for entering data in MyGCHR have become increasingly important as data entered into MyGCHR feeds the master data in the Phoenix system for pay purposes. Control gaps included: data fields considered mandatory for departmental purposes have not been identified; and, a common process has not been established to consistently address and resolve error messages across the Department.

The Security Control Access Officer (SACO) coordinates access for FAA Section 33 approval between INAC and PSPC using standard forms; however, the SACO does not perform periodic reviews to ensure access remains appropriate.

There is no formal process to conduct meaningful monitoring and quality assurance activities relating to HR and Pay processes. System reports are not available, have not been provided by PSPC to INACor INAC has not requested them from PSPC.

Finally, training materials have not been developed to complement the job-aids, e-learnings, and other training guides developed by PSPC. The PSPC training materials are highly systems-focused, and do not provide guidance to the Department's day-to-day operations (overall process training).

Continuous improvement activities relating to communications and training have not been formally established to support the Department's HR and Pay processes (e.g. lessons learned).

Recommendation

2. The Chief Financial Officer and the Director General, Human Resources and Workplace Services Branch, should:

   - Implement a process to document INAC's internal control framework for HR and Pay processes, outlining the controls that are the responsibility of INAC and identifying gaps that require mitigation. The process should support communication of key issues/risks between the Department and PSPC and be iterative in nature given that HR and Pay processes remain in transition; and,

   - Develop a training plan and training materials to support INAC staff in relation to HR and Pay processes.

5.3 Budgeting and Forecasting

The audit expected that roles and responsibilities and timelines for budgeting and forecasting processes are clearly established, communicated and understood. Furthermore, it was expected that budgeting and forecasting processes ensure that the initial budget and budget amendments are approved, data integrity is maintained, budget to actual variance analysis is effective and performed on a timely basis.

INAC has a well-established budgeting and forecasting process that includes adequate guidance for regions and sectors. Continuous improvement activities to support the process were noted, for example, a new initial budget allocation process was introduced in 2016-17 to streamline existing processes.

Through audit testing, there were a few instances noted where supporting documentation was not retained by the PRM Branch to evidence review and monitoring related to budget transfers between regions and sectors (intra budget transfers) before they are entered in SAP.

In addition, access to SAP functionality allowing for the entering of budget information was found to be excessive, both within the Corporate Services teams in the regions, as well as within the PRM Branch. Refer to Section 5.1 Transitional HR and Pay Process regarding an audit finding related to the Financial Situational Reporting (FSR) process.

Recommendation:

3. The Chief Financial Officer should ensure that:

- Budget transfers are supported by appropriate evidence of review and approval; and,
- There is ongoing monitoring and review of access to SAP functionality, and where excessive access is found, it is removed.

6. MANAGEMENT ACTION PLAN

The actions presented below address the recommendations of this report and aim to improve the management practices that are the responsibility of INAC. Process activities that are the responsibility of PSPC are not considered in this action plan.

Recommendations	Management Response/Actions	Responsible Manager (Title)	Planned Implementation Date
1. The Director General, Human Resources and Workplace Services Branch, with support from the Chief Financial Officer should continue to implement: • The required processes, and accountability within INAC to support the ongoing transition to Phoenix and MYGCHR; and • The communication plan that aligns with PSPC to enable INAC to continue to inform INAC staff of new or emerging HR and pay-related issues and INAC's response to address next steps. This becomes increasingly important on a go-forward basis as INAC will need to anticipate and respond to changes at the	The Human Resources and Workplace Services Branch (HRWSB) with support from the Chief Financial Officer (CFO) will continue to implement processes and establish accountabilities to support the ongoing transition and challenges associated with Phoenix and MYGCHR. Since completing the audit field work in June 2016, the HRWSB and CFO has expanded the Phoenix Response Team (PRT) originally established in February 2016 in support of Phoenix implementation. As a result of the well-documented challenges associated with Phoenix Public-Service wide, INAC expanded and stabilized the team with the mandate to coordinate and provide a single point of contact for Phoenix and MYGRHR related for INAC current and former employees, and to help ensure that emerging enterprise-wide changes were addressed quickly and efficiently (e.g. the introduction of the Public Services and Procurement Canada's on-line forms and tracking systems, the Treasury Board Secretariat claims process, etc.). The PRT was created in recognition of the need to build upon INAC's internal capacity and to support the increasing complexity of pay issues faced by employees.	DG HRWSB and CFO	The on-going requirement for the PRT will be assessed prior to March 31, 2017. A PRT Action Report will be provided to the Deputy Minister to document its activities and results prior to March 31, 2017.

Recommendations	Management Response/Actions	Responsible Manager (Title)	Planned Implementation Date
PSPC Pay Centre.	The PRT includes resources from both HRWSB and CFO that work together to identify, analyze, coordinate, track and support the resolution of pay issues and supporting processes, in addition to providing communications to employees regarding emerging pay issues. The specific roles and responsibilities for various functions have been clearly defined and communicated to internal stakeholders. In addition to full-time employees working on the Phoenix and MYGCHR transition issues, funding was approved for an additional 13 positions until March 31, 2017. While established in February 2016 to respond to short-term implementation issues, the expanded PRT team has been in operation since August 2016. Since its inception, the PRT has completed: - Priority Payments and Emergency Salary Advances to provide financial assistance to INAC employees. - Tracked, reviewed and put forward for resolution hundreds of INAC employee-case files. - Documentation of process workflows associated with Priority Payments and Emergency Salary Advances to identify key control points. - A transactional audit of a sample of Priority Payments to identify gaps in the documentation and approval processes. The report identified gaps which have been subsequently addressed. Additional audit work is planned to further test the effectiveness of controls over Priority		

Recommendations	Management Response/Actions	Responsible Manager (Title)	Planned Implementation Date
	Payments.		
	- Analysis and reporting on pay issue data collected from all Business Management Unit Managers and Directors of Corporate Services to identify extent of employee overpayments and underpayments. This information was provided to Treasury Board Secretariat as per their request.		
	- Creation of a consolidated log of INAC employee pay issues from various sources including BMUs/Directors, Corporate Services along with the log maintained by Human Resources and Workplace Services Branch. The data collected serves to assist the Departmental Liaison Officers in following-up with the Pay Centre on pay related issues as well as to track progress against the various files.		
	- Reviewing and providing comments on Treasury Board Secretariat's policy on Government of Canada-Wide Claims Process.		
	- Documenting the process work flow associated with out-of-pocket claims to identify key control points.		
	- Received and reviewed out-of-pocket expenses claims as submitted by INAC employees.		
	- Provided feedback on policy direction from Treasury Board Secretariat (Office of the Comptroller General) related to recovery of overpayments and other pay issue matters.		

Recommendations	Management Response/Actions	Responsible Manager (Title)	Planned Implementation Date
	Further, the PRT Team is actively engaged in activities on an on-going basis related to the Phoenix and MYGCHR systems: - Receiving and tracking all calls/emails related to pay issues from INAC employees and managers and communicating new and on-going issues to the Pay Centre on a daily basis. Pay issues are tracked and followed-up with the Pay Centre until resolved. - Conducting regular conference calls with the 'Working Group for Phoenix s33 Authorizers' to discuss issues related to pay and pay authorization. - Identifying and communicating system and data issues with MYGCHR to Public Services and Procurement Canada. - Providing training and continuous feedback to HR employees working with MYCGHR to ensure data integrity. - Participating in weekly and ad hoc calls with the Pay Centre's 'Integration Organization In-Service Support' to discuss outstanding pay issues regarding Phoenix and to discuss INAC's organizational concerns and priorities. - Participating in weekly and ad hoc calls with Treasury Board Secretariat's 'Departmental Claims Office' to discuss policy and operational issues with respect to receiving and approving employee claims for out-of-pocket expenses.		

Recommendations	Management Response/Actions	Responsible Manager (Title)	Planned Implementation Date
	- Providing interim experienced compensation resources to the Pay Centre satellite offices, in support of the Government-wide commitment to resolve Phoenix-related challenges. Through on-going inter-departmental communication forums, INAC has, and continues to align its communication efforts to employees with those originating from the Pay Centre and Treasury Board Secretariat. - Since January 2016, there has been on-going communication with INAC employees directly or indirectly via The Express and from the Deputy Minister, the Chief Financial Officer, and the Director General of HRWSB, regarding Phoenix training, what to do if an INAC employee experiences a pay disruption, how to read the new pay stub/understanding pay variances, etc. as well as emerging pay issues such as requesting a Priority Payments / Emergency Salary Advances, overpayments and how to file a claim for out-of-pocket expenses. Additional activities will be undertaken by the PRT as the situation evolves.		
2. The Chief Financial Officer and the Director General, Human Resources and Workplace Services Branch should: • Implement a process to document INAC's internal control framework for HR and Pay processes, outlining the	The Chief Financial Officer and Director General, Human Resources and Workplace Services Branch will document INAC's internal control framework for HR and Pay processes – commonly referred to as Pay Administration. The framework will be developed with a view to provide a formal and common approach to documenting internal controls related to Pay Administration within INAC, as well as between INAC and the	CFO and DG HRWSB	The initial deliverable for the internal control framework is expected to be completed May 31, 2017. Updates to the

Recommendations	Management Response/Actions	Responsible Manager (Title)	Planned Implementation Date
controls that are the responsibility of INAC and identifying gaps that require mitigation. The process should support communication of key issues/risks between the Department and PSPC and be iterative in nature given that HR and Pay processes remain in transition. • Develop a training plan and training materials to support INAC staff in relation to HR and Pay processes.	Pay Centre. This work will leverage the 'Sample Control Framework for INAC HR Staffing Action and Pay Processes' provided by the Audit and Assurance Services Branch both in terms of its content and format. The internal control framework will identify and describe: - Objectives - Owners - Activities - Type / Frequency - Gaps - Action Items (to address gaps) The work effort will be coordinated between the CFO Sector and Human Resources and Workplace Services Branch with each group responsible for their own Pay Administration processes. The work will begin by documenting the scope of the Pay Administration process using standard flowcharting tools and protocols. The internal control framework will provide the basis for a future assessment of internal controls related to Pay Administration which is planned by the Corporate Accounting and Reporting Directorate in 2017-18. In addition, communication between the Department and Public Services and Procurement Canada (PSPC) will continue as it has occurred since the move of INAC's pay administration to the PSPC Pay Centre in 2012-13 through		training plan and materials will be implemented on an ongoing basis and a summary of results provided on or before May 31, 2017.

Recommendations	Management Response/Actions	Responsible Manager (Title)	Planned Implementation Date
	regular inter-departmental forums. These forums provide the opportunity to discuss priorities that are emerging through the regular Pay Administration cycle (as per Recommendation #1), in addition to key issues and risks identified through the documentation of the internal control framework (Recommendation #2). Further, the Human Resources and Workplace Services Branch will review and update its training plan and materials in support of Pay Administration activities as a result of changes to roles, responsibilities and/or processes. This review will include observations identified through both Recommendations #1 and #2. Finally, it is understood that processes, systems and responsibilities related to Pay Administration between INAC and PSPC may continue to change. As such, the framework will be updated on an iterative manner until Phoenix and MYGCHR processes reach a steady-state.		
3. The Chief Financial Officer should ensure that: • Budget transfers are supported by the appropriate evidence of review and approval • There is ongoing monitoring and reviewing of access to SAP functionality, and where excessive access is found, it is removed.	**i)** The PRM Branch is in the process of updating its internal procedures including budget transfers. Consideration will be given to ensuring appropriate evidence of review and approval related to budget transfers. **ii)** The CFO sector through the Financial Systems Training (FST) group ensures only authorized users have access to SAP functionality through various monitoring and review activities in accordance with the Corporate Financial Applications User Access and Security Framework. This document, that is	CFO	i) Action to be implemented by March 31, 2017 ii) Actions to be implemented by May 31, 2017

Recommendations	Management Response/Actions	Responsible Manager (Title)	Planned Implementation Date
	currently being updated, outlines the framework and controls for user access to the corporate financial systems, including SAP, at INAC. These guidelines are established to protect the confidentiality and integrity of the data in the system and this framework enables efficient and effective security monitoring. The users granted access to these systems must meet security clearance requirements and include employees, contractors, and third party users. Additionally, the processes outlined in this document support the departmental security policy outlined in the INAC Security Management Framework. FST will ensure adherence to the user access processes defined within the document for all financial systems. In addition, the specific processes and activities used should be consistent with the overall risk management approach related to managing SAP user access. To this end, FST plans to document its risk management approach including the roles and responsibilities of Health Canada. Currently, managing access to SAP accounts is based on a multi-layered approach which includes such key elements as deleting LAN access for terminated employees. In addition, this work will also result in identifying any gaps in the current practices and any additional activities required to close the gaps to ensure the SAP access is effectively managed.		

Appendix A: Audit Criteria

To ensure an appropriate level of assurance to meet the audit objective, the following audit criteria were developed.

Audit Criteria and Control Objectives	
1.	**Budgeting and Forecasting (including Salary Forecasting)**
1.1	Roles and responsibilities and timelines for budgeting and forecasting processes are clearly established, communicated and understood.
1.2	Budgeting and Forecasting processes ensure that the initial budget and budget amendments are approved, data integrity is maintained, budget to actual variance analysis is effective and performed on a timely basis.
1.3	Staff are provided with the necessary training, tools, resources, and perform continuous improvement activities relating to budgeting and forecasting processes and procedures.
1.4	Controls over the Integrated Financial Solution tool ensure that reports include accurate, complete and valid information for budgeting and forecasting decision making.
2.	**Priority Payments**
2.1	Priority payments are issued to individuals for valid circumstances and completely and accurately processed on a timely basis.
3.	**Controls over HR and Pay**
	(*For the period since Phoenix and MyGCHR onboarding, Feb 2016 – June 30 , 2016*)
3.1	Roles and responsibilities between INAC and the Pay Centre regarding HR and payroll activities, including escalation processes for identified issues are clearly defined, communicated and understood.
3.2	INAC's control framework includes key controls to ensure that HR staffing actions have been approved, and completely and accurately entered in the system on a timely basis.
3.3	INAC's control framework includes key controls to ensure that all salary payments are verified and appropriately approved for FAA Section 33 certification on a timely basis.
3.4	An effective monitoring process with appropriate tools and reports are in place to manage salary overpayments, salary underpayments or other pay action adjustments.
3.5	An effective continuous monitoring framework is established for HR and Pay processes and procedures since the implementation of Phoenix and includes a periodic assessment to identify lessons learned, training required for INAC staff, or leading practices within the Department.
4.	**SAP Access and Configuration related to Expenditure Management**
4.1	Access to SAP expenditure-related functionality is appropriately restricted.
4.2	SAP configuration appropriately configured to support the expenditure process.

Appendix B: Relevant Policies, Directives, and Guidance

The following authoritative sources were examined and used as a basis for this audit:

Treasury Board Policies, Directives, Guidelines, Acts

- TB Policy on Financial Management Governance
- TB Policy on the Stewardship of Financial Management Systems
- TB Directive on the Stewardship of Financial Management Systems
- TB Directive on Account Verification
- Common Financial Management Business Process (FMBP) – Common Business Process Model for 1.1: Manage Planning and Budgeting
- Guideline on the Common FMBP for 5.1 Pay Administration
- Financial Administration Act

INAC Policies, Directives and Guidelines

- INAC Account Verification Framework
- INAC Financial Delegation of Authority
- INAC Sub-Delegation Instrument (for HR Management Authorities)