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## **Main points**

The Public Service Commission (PSC) is the central human resource agency for staff employed primarily by Government ministries. PSC provides employee, payroll, and benefit administration for all ministry employees. PSC is also responsible for the human resources and payroll system. This system contains personnel and payroll information.

PSC and ministries must clearly assign responsibilities for key pay activities so that each party carries out their respective roles. Service level agreements with ministries need to clearly set out payroll responsibilities. Also, PSC needs to sufficiently document its completion of key payroll activities to evidence that responsibilities were carried out.

PSC also plays a part in identifying, collecting, and recording payroll overpayments, given overpayments are often deducted from an employee's future pay. PSC needs processes for recording and collecting payroll overpayments to help ensure overpayments are recovered promptly.

## **Introduction**

Since March 2006, the Public Service Commission (PSC) is responsible for the Multi-informational Database Applications System—human resources and payroll (MIDAS HR/Payroll). MIDAS HR/Payroll helps PSC and the ministries manage employee information (e.g., benefits, salary, job assignment, and training) and process payroll transactions.

Since February 9, 2010, a centralized unit of PSC called the Employee Service Centre (ESC) is responsible for providing employee, payroll, and benefit administration for all ministry employees.

Given PSC's overall responsibility for MIDAS HR/Payroll and the ESC, it must have adequate central controls to secure MIDAS HR/Payroll and its information. Central controls are those controls that PSC must establish and carry out to protect the confidentiality, integrity, and availability of MIDAS HR/Payroll transactions.

## **Audit objective, criteria, and conclusion**

The objective of this audit was to assess whether PSC had adequate central controls to protect the confidentiality, integrity, and availability of transactions on MIDAS HR/Payroll for the twelve-month period ending December 31, 2009. This audit did not assess the adequacy of controls at the user agencies (i.e., ministries). Rather, it focused on the central controls at PSC.

To make these assessments, we used criteria based upon the *Trust Services Criteria and Principles* authored by The Canadian Institute of Chartered Accountants and the American Institute of Certified Public Accountants, as well as international standards, literature, and reports of other legislative auditors. PSC has agreed with the criteria.

Our criteria, set out in Exhibit 1 below, describe the key processes that we expected PSC to have.

### Exhibit 1 —Audit criteria

Adequate central controls used to protect the confidentiality, integrity, and availability of transactions on MIDAS HR/Payroll should include control processes that:

**1. Show management commitment to security (governance)**

- 1.1. Responsibilities for security are clearly defined
- 1.2. Management identifies threats and risks
- 1.3. Management has approved security policies and procedures
- 1.4. Management monitors security

**2. Protect systems and data from unauthorized access**

- 2.1. User access controls protect the system and data from unauthorized access
- 2.2. Physical security controls protect the system and data from unauthorized access

**3. Make systems and data available for operation**

- 3.1. System and data backups occur and are tested
- 3.2. Disaster recovery plans are in place and tested

**4. Maintain the integrity of systems and data**

- 4.1. Management has policies and procedures for managing the system and data
- 4.2. Change management processes exist and are followed
- 4.3. Management monitors the system to ensure it is operating as planned

User agencies rely on PSC, as a service provider, to have adequate central controls, carry them out properly, and have responsibilities related to data processed within the system accurately.

Throughout our audit, we followed *The Standards for Assurance Engagements* published by The Canadian Institute of Chartered Accountants.

## Key findings and recommendations

**We concluded that, for the twelve-month period ended December 31, 2009, PSC had adequate central controls to protect the confidentiality, integrity, and availability of transactions on MIDAS HR/Payroll except for:**

- ♦ **assigning responsibilities for key payroll activities in its service level agreements with ministries**

- ◆ **its processes to record and collect overpayments of employee pay**
- ◆ **following its processes to document the review of key payroll reports**

The following sections set out our significant findings.

## **Clarifying PSC's responsibilities for key payroll activities**

Service level agreements (SLAs) between PSC and user agencies (ministries) do not clearly assign responsibilities for key payroll activities.

We expected the SLAs between PSC and the ministries to clearly set out the responsibilities of each party for key payroll activities. During the audit, we noted that PSC had assumed responsibility for the following payroll activities without a formal delegation from ministries:

- ◆ identifying, collecting, and recording payroll overpayments even though the payments are made out of Ministry appropriations
- ◆ approving routine payroll payments for every ministry in accordance with *The Financial Administration Act, 1993 (Act)*<sup>1</sup>
- ◆ monitoring user access to the MIDAS HR/Payroll system for certain ministries

Under its policy, PSC must investigate and document the reasons for payroll differences over a certain threshold. However, SLAs do not set out these thresholds. As a result, PSC may be investigating payroll differences that do not meet each ministry's needs.

Furthermore, we noted that PSC does not review and approve non-routine payroll payments. SLAs are unclear as to who is responsible for approval of the non-routine payroll payments. Management told us that it has implemented a process to have an independent review and approval of non-routine payroll payments.

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<sup>1</sup> Under *The Financial Administration Act, 1993 (Act)*, s.28 "every payment out of the general revenue fund is to be made ...in the manner that the Provincial Comptroller may direct or approve." This includes payroll payments. The Act, s.30 also expects that an authorized individual, before making payment, certify that the services have been provided and the amount to be paid and its payment is in accordance with the contract (e.g., terms of employment).

- 1. We recommend the Public Service Commission amend its service level agreements with ministries to clearly assign responsibilities for key payroll activities (i.e., managing payroll overpayments, approving payroll payments, and investigating payroll differences).**

## **Recording and collecting payroll overpayments**

PSC does not have adequate processes to ensure payroll overpayments to terminated employees or employees on leave are properly recorded and promptly recovered.

Payroll overpayments are payments made to Government employees in excess of the amount the employee earned. Overpayments are amounts owing back to the Government (receivables). Agencies need adequate processes to reduce the risk of payroll overpayments and to identify where they are more likely to occur. Where a greater risk of overpayment exists, agencies need processes to identify overpayments promptly. For identified overpayments, agencies need processes to track them in their accounting records. Agencies must collect amounts due on a timely basis and assess their continued collectability.

PSC recognizes that payroll overpayments often occur when employees terminate or go on a leave of absence and the related ministry does not inform PSC promptly. For example, a ministry employee resigns in the middle of a pay period and the ministry does not inform PSC of the resignation before PSC pays the employee. To minimize payroll overpayments in these situations, PSC asks ministries to use an employee termination checklist that includes reminders for them to notify PSC before the employee's last pay period. PSC has also implemented a policy whereby ministries must send final timecards of terminated employees to PSC. PSC then processes the employee's final pay. PSC also uses various ways (such as investigation of payroll differences) to identify potential overpayments.

However, PSC does not maintain complete and up-to-date records of payroll overpayments (i.e., monies owing to the employee's ministry). Nor does PSC consistently and promptly notify ministries of overpayments so they can properly record the amount due in their accounting records. Failure to record outstanding overpayments affects the accuracy of ministries' salaries expenses and amounts due.

Furthermore, PSC has not yet developed a collection policy for payroll overpayments. This policy would set out processes to collect payroll overpayments and the responsibilities of PSC and ministries in these situations. Management told us it is currently in the process of drafting such a policy.

PSC does not consistently take steps to collect payroll overpayments promptly. Failing to notify employees and/or ministries of overpayments on a timely basis increases the risk that the overpayments will not be recovered.

**2. We recommend that the Public Service Commission implement processes over the recording and collection of payroll overpayments.**

## **Maintaining sufficient documentation**

PSC has not documented the completion of key payroll activities consistently and sufficiently.

Proper documentation provides evidence of completion of assigned duties.

PSC requires its staff to review payroll reports of all ministries. Staff did not consistently document its review (including the date of its review) of these reports. As a result, we could not determine if PSC reviewed the reports in all cases or if reviews took place prior to paying employees. To reduce the risk of incorrect pay and to comply with the Act, PSC should review payroll reports prior to paying employees.

Contrary to its policy, PSC did not always document the reasons for payroll differences in excess of the thresholds set out in the policy. Without adequate follow up, there is a risk that employees may be overpaid.

In 2009, PSC gave certain staff the HR Payroll Administrator (HRPA) role within the MIDAS HR/Payroll system. HRPAs have the authority to enter a new employee and pay the employee. Because PSC recognizes the HRPA role creates the risk of making payments to fictitious employees, it requires review of two reports to monitor and detect inappropriate use of this role. However, often PSC did not leave evidence of review of these reports. As a result, we could not determine if these reports are

functioning as an adequate control. Our review of the reports did not identify any instances of inappropriate use of the HRPAs role.

- 3. We recommend Public Service Commission consistently document its review of payroll reports and resolution of matters resulting from its review.**

## **Selected references**

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