ONTARIO POWER GENERATION

Internal Audit

Recruit, Select and Hire Audit

May 9, 2017

Report Rating: **Requires Improvement**

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1.0 EXECUTIVE SUMMARY

1.1 Report Rating and Summary of Findings

Report Rating: **Requires Improvement**

No.	Finding	Risk Type	Risk Rating[1]		
			High	Moderate	Low
1	Some instances of non-compliance with the re-hiring procedure were noted and amendments to the procedure were not formally issued and rolled out.	Operational	X		
2	Contract extensions for temporary staff beyond established time limits were not subject to exception approval.	Operational		X	
3	Candidate sourcing and hiring decisions were not adequately documented in some instances.	Operational		X	
4	Performance metrics were not developed and reported on a regular basis to facilitate the monitoring of recruitment activities.	Operational		X	
Total		**4**	**1**	**3**	**-**

1.2 Background

The recruit, select and hire process is centrally managed by the Talent Attraction group within the People & Culture ("P&C") organization. The group is responsible for developing governance, and supporting and monitoring activities to recruit, select and hire both regular and temporary staff.

Internal Audit last performed an audit of this area in 2015. The purpose of that audit was to assess whether OPG had satisfactorily addressed the findings identified in the 2013 Auditor General ("AG") Report related to recruitment practices. The Ontario Internal Audit Division ("OIAD") was commissioned by the Minister of Energy to report on OPG's progress in addressing the AG findings. OIAD has stated in its latest report (as at June 2016) that OPG has made reasonable progress on AG's recommendations pertaining to recruitment practices.

This audit was performed as part of Internal Audit's ("IA's") cyclical program.

1.3 Objective & Scope

The objective of this audit was to assess the design and operating effectiveness of OPG's recruit, select and hire process, including compliance with internal policies to ensure the recruiting needs of stakeholders were met and there was a fair and transparent process.

[1] Please refer to Appendix D for risk rating definitions

In order to achieve the audit objective, we reviewed the process and tested, on a sample basis, whether:

A. Governance/Process
• The hiring process was clearly established through procedures and guidelines; and • Roles and responsibilities were clearly defined and understood by relevant stakeholders.
B. Recruitment Processing
• Appropriate sourcing methods were used to identify suitable candidates (e.g. internal posting, external posting, use of recruiting agencies); • Hiring panels made up of appropriate members were used in interviews; • Vacancy packages were adequately completed to support hiring decisions and were subjected to P&C's independent verification (Band G and below positions); • Internal appointments to positions (e.g. leadership roles) were appropriately approved and supported; • Compensation for new hires in the management group was consistent with established guidelines / ranges; • Potential conflicts of interest during the hiring process were identified/disclosed (e.g. new hires with same residential address as existing employees) and managed as appropriate; • Background checks of external candidates were completed; and • Offer letters were approved by Human Resources, the hiring manager and the R2 manager.
C. Re-hiring of Former Employees
• Appropriate documentation and approval were in place to support the re-hire decisions; • Exceptions to the waiting period and cumulative re-hire service limit, as defined in OPG-PROC-0145, were appropriately approved; and • Re-hired employees (including augmented staff) were not previously terminated by OPG with cause (e.g. misconduct).
D. Use of Temporary Employees (including Augmented Staff)
• Various non-regular staffing categories were clearly defined; • Non-regular staff were not hired into positions with purchasing authority, except for Temporary Project Executives; • Extensions of continuous non-regular employment beyond five years were approved by a member of the Executive Leadership Team ("ELT"); • The hiring of augmented staff was subject to appropriate approval; • Exceptions to the established rate bands for augmented staff were appropriately approved; and • Hiring managers were not involved in rate negotiations with recruiting agencies for the hiring of augmented staff.
E. Engagement of Recruiting Agencies
• Selection of recruiting agencies complied with procurement governance. Stakeholder inputs were obtained when developing service requirements (e.g. scope of work, vendor's area of expertise) to ensure that business needs were considered; • Recruitment fees were accurately charged in accordance with contract terms; and • Recruiting agencies were providing a level of service that meets OPG's staffing needs (e.g. quality of candidates, successful placement and retention rate).
F. Performance Monitoring and Risk Management
• Appropriate metrics were defined, tracked and reported to measure the effectiveness and efficiency of the recruit, select and hire process; • Compliance with hiring policies / guidelines was monitored. Exceptions were followed-up with corrective action taken where applicable; and • Stakeholder feedbacks on recruitment services were obtained.

G. Fraud Risk Considerations
• Selection procedures were manipulated by employees to secure the appointments of close friends or family members; • Hiring decisions were made based on fraudulent credentials / qualifications on resumes; and • Awarding contracts to recruitment agencies in exchange for kickbacks or favours.

Scope Period: The scope included activities from January 1, 2016 to December 31, 2016.

As part of the audit, IA verified if findings related to recruitment practices as noted in the 2013 AG Report were continuously addressed.

1.4 Conclusion

Overall, management had developed a recruitment framework with appropriate policies and processes to satisfy the recruiting needs of stakeholders and encourage fair and transparent recruitment practices. Recruitment activities were found to be largely in compliance with the established procedures, with some exceptions noted mainly in the hiring of temporary staff and former employees. Expectations need to be reinforced with stakeholders to ensure consistent application of these processes.

IA also noted a rising trend in re-hire activities, with an increase of 41% over a 3-year period from 2014 to 2016[2]. The major contributors to this trend were: (a) growing needs of nuclear projects, particularly refurbishment; (b) high attrition rates; and (c) the conscious decision from management to moderate certain re-hiring rules. P&C should continue to monitor re-hiring activities to ensure that justifications are documented and aligned with current business strategy, and support the business units in developing long-term solutions.

Some positive observations, along with key findings and recommendations are noted below.

<u>Positive Observations</u>

- Recruitment & Resourcing ("R&R") had developed step-by-step guides to provide hiring managers with instructions and tools to navigate through the recruitment process. Separate guides were developed for each type of hire (e.g. regular, temporary, summer students), highlighting mandatory requirements and providing links to the various forms and tools used in the process; and

- Stakeholders interviewed during the audit expressed their satisfaction with the service received from R&R personnel in terms of the level of professionalism and support.

<u>Key Findings & Recommendations</u>

- Some instances of non-compliance with the Re-hiring of Former OPG Employees Procedure (OPG-PROC-0145) were noted, such as missing approvals for re-hires. In addition, the governance had not been formally re-issued to reflect amendments made to certain re-hire rules (e.g. waiting period and service period requirements). Management should re-issue OPG-PROC-0145 to formally roll-out the amendments and reinforce the requirements with HR Business Partners ("HRBPs") and Line Management;

[2] Re-hire activities increased from 388 to 548 (41%) over the 3-year period from 2014 to 2016. This includes re-hires who were formerly employed by OPG in either regular or non-regular capacity.

- As per the Non-Regular Staffing Principles, temporary roles extending beyond 12 months must be formally advertised and continuous employment over two years should be avoided. IA noted some instances where these principles were not met and exception approval was not obtained as required. One of these instances involved the "name hiring" of an individual who was related to an existing employee within the organization. The two individuals were not in a reporting relationship. However, without documented justification and disclosure of the potential conflict, this might negatively affect the perception of fairness. Management should clarify the temporary hiring requirements with HRBPs and reinforce their role in supporting Line Management with governance implementation; and

- Enterprise-wide recruitment metrics were not in place to measure the effectiveness and efficiency of the recruitment function. Management had self-identified this deficiency and included the development of an enterprise-wide dashboard in the P&C 2017-2019 Strategic Plan. A monthly dashboard for the Nuclear organization has already been implemented since April 2016.

The findings noted in this report have been reviewed with management and they have committed to specific action plans. Please refer to Section 2.0 for specific details of the above findings along with the associated risk impact, audit recommendations and management action plan.

Opportunity for Improvement

P&C manually records employment history of re-hires in a spreadsheet to support ad-hoc reporting needs. P&C is currently undertaking a project to implement Success Factors, a human capital management software that will provide the necessary tools to support an integrated talent management strategy and enhance the organization's analytical capability. We recommend that Management also leverage Success Factors to improve the efficiency and accuracy of reporting around re-hiring activities.

2.0 DETAILED AUDIT FINDINGS

Internal Audit identified the following detailed findings and recommendations which have been risk-rated based on the definitions outlined in Appendix D.

1. Some instances of non-compliance with the re-hiring procedure were noted and amendments to the procedure were not formally issued and rolled out.	**High**

The Re-hiring of Former OPG Employees Procedure (OPG-PROC-0145) stipulates the criteria for re-hire, restrictions (e.g. minimum waiting period, maximum re-hired period) and documentation and approval requirements for re-hiring activities. Compliance with the procedure across the organization is mandatory and monitored by the Recruitment Department.

IA performed testing over the re-hiring of former employees from January 1, 2016 to December 31, 2016 and noted the following deficiencies:

Missing Documentation and Approval

IA obtained the SAP headcount data as at December 31, 2016 and identified 548[3] former employees who were re-hired into the organization in 2016. We tested a sample of 50 re-hires (all were former regular employees subject to the OPG-PROC-0145) and found three instances where the Re-hiring of Former OPG Employees Approval Form (OPG-FORM-0148) was not completed.

Of the three exceptions noted (details provided in Appendix A):

- One individual was re-hired into the Nuclear Refurbishment organization within six months upon retirement, hence required exception approval for not meeting the minimum waiting period; and
- Two were re-hired into non-refurbishment related positions after six months, but within one year upon retirement. These individuals have failed to meet the one-year minimum waiting period defined in OPG-PROC-0145. However, they would have satisfied the amended requirements implemented in June 2016 outside of the governance review cycle described below.

Governance Updated

A decision was made to amend certain re-hiring rules, effective June 20, 2016. While these amendments were endorsed by the ELT and communicated to the recruitment personnel (e.g. HRBPs, Recruiting Specialists), OPG-PROC-0145 was not formally revised and re-issued to reflect the changes. Our interviews with 10 randomly selected hiring managers across the organization revealed that the managers were not fully aware of the amendments. Key amendments included:

- Reducing the waiting period from the general 12-month window to six months for all re-hires; and
- Redefining the limit on re-hire period and removing the one-year lifetime maximum (or three years for roles within specific organizations).

[redacted]

[3] The total of 548 represents all augmented and temporary staff as at December 31, 2016, who were formerly employed by OPG in a regular or non-regular capacity. However, the 50 samples selected included only individuals who were formerly employed as regular employees and hence subject to the rules defined in OPG-PROC-145.

Potential Cause & Impact
Potential Causes: • Missing approvals and incomplete records were due to human error and insufficient knowledge of the new requirements; and • Roll out of governance amendments was delayed as management decided to perform a second review subsequent to June 2016. Management indicated that amendments to governance were communicated to recruiting personnel who supported the BUs with re-hiring activities, hence reducing the urgency for formal roll-out of the revised governance. Impact: • There may be some confusion over the re-hire criteria and restrictions while amendments were being formalized; and • Business units may inappropriately exclude former employees from the selection process if they are unaware that the re-hire restrictions had been amended.
Recommendation
Management should: • Educate and reinforce the re-hire requirements with HRBPs to support the accountable managers in completing the applicable requirements, prior to the release of offer letters; and • Revise and re-issue OPG-PROC-0145 to formally roll-out the amendments implemented since the last review to reflect current requirements.
Management Action Plan
Revise and re-issue OPG-PROC-O145 in Governance. Formally roll out the revisions to the HRBP community and high users of the procedure and ensure that accountabilities are understood. Action Owner – Janice Tee, Director Talent Attraction Target Completion Date – July 1, 2017

2. Contract extensions for temporary staff beyond established time limits were not subject to exception approval.	**Moderate**

The Non-Regular Staffing Principles (the "Principles") define the requirements for the hiring of non-regular employees, including temporary staff hired directly by OPG or sourced through augmented staffing agencies. As per the Principles, continuous employment of non-regular employee in excess of two years, or three years for specific roles (i.e. roles supporting Nuclear Refurbishment, Pickering End of Commercial Operations or requiring previously Licensed staff) requires approval.

SAP headcount data indicated that OPG had 408 direct temporary hires as at December 31, 2016. Seven of these individuals were continuously employed as temporary staff over the allowable service periods without the necessary exception approval. Exceptions noted are summarized below (refer to Appendix B for details):

- One individual had a continuous service period exceeding five years. As per the Principles, extensions beyond five years would require a detailed business rationale and Enterprise Leadership Team ("ELT") approval. ELT approval was not noted in the individual's contract extension in 2016; and
- Six individuals had continuous service periods between two and five years. In all six cases, exception approval was not obtained.

Potential Cause & Impact

Potential Causes:

- The Principles were not clear around the exception signatures required for direct temporary staff with continuous service period beyond two years (or three years for specific roles); and
- HRBPs were not fully aware of the exception approval requirements.

Impact:

[redacted]

Recommendation

Management should:

- [redacted]
- Update the Principles to define the level of authority required to approve contract extensions for direct temporary staff beyond stated time limits. Revise the relevant hiring / contract extension templates to reflect the required signatories; and
- Educate and reinforce the temporary contract extension requirements with HRBPs to support the accountable managers in completing the applicable requirements, prior to the release of offer letters.

Management Action Plan
1. [redacted] 2. Re-examine the temporary staff hiring principles and rules around how long temporary employees can work for OPG. Update the principles and corresponding templates / information on the Recruitment intranet site, and develop a Change and Communication Plan to roll out to the HRBPs. Planned updates include: a. Update Temporary Offer Letter and Extension Letter templates with rules and include an approval box that is in line with required approvals; and b. Require external temporary staff hiring activities be processed through the Talent Attraction team to ensure that revised principles are followed and that there is a fair process. Actions Owner – Jennifer Strano, Manager Talent Attraction Target Completion Date – July 1, 2017

3. Candidate sourcing and hiring decisions were not adequately documented in some instances.	**Moderate**

OPG's Code of Business Conduct requires that hiring processes be conducted in a fair and transparent manner. P&C had developed various hiring policies and procedures to provide hiring managers the necessary guidance. Proper documentation is required to be maintained to provide an audit trail of the selection process (e.g. list of candidates interviewed, members of hiring panel, interview scores and notes).

IA examined supporting documentation (e.g. vacancy files) for a sample of new hires from January 1, 2016 to December 31, 2016 and noted the following deficiencies – refer to Appendix C for details:

Non-Competitive Hiring

- IA identified 35[4] new external hires who shared the same address as an existing employee within the organization. Nineteen were sampled and one exception was noted where a competitive process was not followed. The new hire and the existing employee did not have a reporting relationship. However, since the temporary role was extended to beyond 12 months, the position should have been formally advertised upon extension unless approved by the appropriate R2 Manager and VP HRBP (as required by the Non-Regular Staffing Principles). The extension was not approved by the VP HRBP.
- An additional 20 random samples (including both external and internal hires) were selected and one exception was noted, where a regular full-time position was filled by an external candidate sourced through employee referral. The vacancy was not formally advertised to seek competition and no vacancy file was prepared.

Clarity of Hiring Decisions

The same 20 random samples noted above were examined for evidence that proper documentation was maintained to support hiring decision.

- In one instance, evidence of the R2 Manager and HRBP's approval of the offer letter was not available; and
  One instance was noted where the vacancy file indicated that the selected candidate (internal candidate) had failed the reference check. IA was informed by the Hiring Manager that this was a documentation error. However, since this was an internal hire, the reference check was done verbally and no records were maintained to allow for verification.

Potential Cause & Impact

Potential Causes:

- The HR Business Partners were not fully aware of the exception approval requirements over temporary hires. Also, vacancy files for temporary hires (in excess of 12 months) were not subject to P&C's independent verification process due to constraints in resources; and
- For regular hires, there was lack due diligence / human error in enforcing all procedural requirements.

Impact:

Inadequate documentation of hiring decisions / exception approval could undermine the fairness and transparency, or public's perception of OPG's hiring practices.

[3] The total of 35 excludes trades who were employed through a hiring hall (i.e. 'Appendix A', Chestnut Park and EPSCA), as OPG has no control over the selection of these individuals.

Recommendation
Management should: • Educate and reinforce the competitive hiring requirements with HRBPs to support the accountable managers in completing the applicable requirements, prior to the release of offer letters; and • As part of the vacancy file audit, R&R should ensure that documentation was accurate and clearly support the hiring decision.
Management Action Plan
1. Re-examine the temporary staff hiring principles and rules around how long temporary employees can work for OPG. Update the principles and corresponding templates / information on the Recruitment intranet site, and develop a Change and Communication Plan to roll out to the HRBPs. Planned updates include: a. Update Temporary Offer Letter and Extension Letter templates with rules and include an approval box that is in line with required approvals; and b. Require external temporary staff hiring activities be processed through the Talent Attraction team to ensure that revised principles are followed and that there is a fair process. 2. Vacancy File Audit Process Update – ensure notes are provided by hiring managers if they do not select the highest scoring candidate. Actions Owner – Jennifer Strano, Manager Talent Attraction Target Completion Date – July 1, 2017

4. Performance metrics were not developed and reported on a regular basis to facilitate the monitoring of recruitment activities.	**Moderate**

Performance metrics should be developed to measure the effectiveness and efficiency of the recruitment function in meeting organizational needs. Results should be tracked and reported regularly to provide management with necessary feedback to identify performance gaps and opportunities for improvement.

IA noted that OPG-wide recruitment metrics were not in place. This issue has been self-identified by management as evidenced in P&C's 2017-2019 Strategic Plan, which included the objectives of building an Enterprise Dashboard on Talent Attraction and launching of surveys for new hires and hiring managers to provide feedback. Progress have been made in 2016, where a monthly dashboard was implemented to provide hiring statistics and some recruitment metrics (e.g. Average Time to Hire, Average Time to Fill, Total Re-hires) for the Nuclear organization.

Potential Cause & Impact

Potential Causes:
Taleo, OPG's current talent management system, is limited in its ability to produce data for use as the building blocks for performance metrics.

Impact:
Management may not have the necessary tools to assess the effectiveness and efficiency of the recruitment function in meeting business needs. As such, weaknesses and undesirable trends may remain undetected.

Recommendation

Management should implement the Enterprise Dashboard to report on key recruitment metrics on a regular basis, including compliance with policies and number of re-hires, augmented staff and temporary staff.

Management Action Plan

1. Publish Enterprise dashboard highlighting Talent Attraction's activities vs. business needs.

2. Develop business-driven Recruitment metrics to coincide with the launch of Success Factors (MyPower)

Actions Owner – Janice Tee, Director Talent Attraction

Target Completion Dates – July 1, 2017 (Action #1), September 30, 2018 (Action #2)

APPENDIX A – EXCEPTIONS LIST FOR FINDING #1

Re-hires Not Supported by the Re-hiring of Former OPG Employees Approval Form (OPG-FORM-0148)

#	Employee #	Retirement Date	Re-hire Date	Employment Type	Business Area
1	14***0	12/18/2015	3/21/2016	Augmented Staff	Nuclear Projects
2	75***5	1/28/2016	10/3/2016	OPG Direct Temp	Nuclear
3	41***5	3/31/2016	10/17/2016	OPG Direct Temp.	Supply Chain

APPENDIX B – EXCEPTIONS LIST FOR FINDING #2

Direct Temporary Employees – Greater than Two Years of Continuous Service

#	Employee #	Employment Type	Business Area	Hire date	Years of Continuous Service (as at Dec 31, 2016)
Service Period – Greater Than Five Years					
1	19***5	Direct OPG Temp	Renewable Generation & Power Marketing	11/18/2009	7.12
Service Period - Between Two and Five Years					
2	51***1	Direct OPG Temp	Nuclear	6/1/2012	4.58
3	21***2	Direct OPG Temp	People, Culture & Communications	4/29/2013	3.67
4	19***9	Direct OPG Temp	Renewable Generation & Power Marketing	9/18/2014	2.29
5	21***7	Direct OPG Temp	Finance	9/23/2014	2.27
6	21***8	Direct OPG Temp	Nuclear	10/16/2014	2.21
7	21***7	Direct OPG Temp	People, Culture & Communications	12/2/2014	2.08

APPENDIX C – EXCEPTIONS LIST FOR FINDING #3

"Non-Competitive" Hiring

#	Employee #	Employment Type	Business Area	Initial Hire Date/ Period	Contract Extension Period	Comments
1	21***0	Temporary (extended beyond 1-yr)	Nuclear Projects	4/18/2016 to 11/30/2016	11/30/2016 to 11/3-/2017	The new hire has the same address as an existing employee. However, they do not have a direct reporting relationship.
2	21***9	Regular/Full time	Nuclear Projects	4/25/2016	N/A	The new hire was sourced through employee referral and not subject to a competitive process. No vacancy file documentation was available.

Vacancy File Documentation – Justification of Hire

#	Vacancy File #	Employee #	Business Area	Date of Hire	Comments
1	15****2	21***7	Nuclear Operations	2/8/2016	External hire. Evidence of R2 Manager or HR approval of the offer letter was not available.
2	16****5	20***6	Corporate – Business Development & Strategy	9/30/2016	Internal hire. Selected candidate has failed reference check as per vacancy file documentation. IA was informed by the hiring manager that this was a documentation error.

APPENDIX D – RISK RATING DEFINITIONS FOR AUDIT FINDINGS

Ratings are derived through professional judgment by the audit team and discussion with management. The ratings for individual control findings are outlined below.

Rating	Definition
High Risk	The finding presents a risk that could potentially have severe/major impact on financial sustainability (≥$5M), operational excellence, project excellence, safety, environment and reliability, reputation, regulatory relationship, or compliance with laws and regulations.
Moderate Risk	The finding presents a risk that could potentially have a moderate impact on financial sustainability ($500K to <$5M), operational excellence, project excellence, safety, environment and reliability, reputation, regulatory relationship, or compliance with laws and regulations. If not remediated, this risk could escalate to high risk.
Low Risk	The finding could potentially have a minor impact on financial sustainability (<$500K), operational excellence, project excellence, safety, environment and reliability, reputation, regulatory relationship, or compliance with laws and regulations. Recurring "low risk" findings may be elevated to medium risk status.

OVERALL REPORT RATING SCALE

An overall report rating has been assigned as an indication of the overall design, existence and effectiveness of the components of the internal control structure that was subject to the internal audit. The internal audit rating should be considered in conjunction with the definitions noted above.

- *Effective:* control and risk management practices provide reasonable assurance that business process objectives will be achieved and may include minor improvements and/or opportunities for improvement.
- *Generally Effective*: control and risk management practices require more than minor but less than significant improvements to provide reasonable assurance that business process objectives will be achieved.
- *Requires Improvement*: control and risk management practices require significant improvements in high risk and/or core areas to provide reasonable assurance that business process objectives will be achieved.
- *Not Effective:* control and risk management practices are not designed and/or are not operating effectively.

APPENDIX E – PROCESS OWNER & DISTRIBUTION LIST

Lovleen Bassan
VP Talent Management & Business Change

Distribution List:

Jeff Lyash	President & Chief Executive Officer
Ken Hartwick	Chief Financial Officer & SVP Finance
Barb Keenan	SVP People & Culture
Susan Brooks	VP HR Business Partners
Darlene McVeity	VP HR Business Partners
Janice Ding	Director Internal Audit
Nirav Patel	Director Human Resources
Janice Tee	Director Talent Attraction
Theresa Dekker	Senior Manager Enterprise Risk Management
Jennifer Strano	Manager Talent Attraction