ONTARIO POWER GENERATION

Internal Audit

Payroll Audit

December 03, 2019

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	Controls around master data updates were not adequately designed or operating effectively to ensure accurate payroll processing.	Operational	x		
2	Data integrity issues in employee master data were not always resolved in a timely manner.	Operational		x	
3	Several instances were noted where termination was not processed in a timely manner.	Operational		x	
4	There was inadequate reporting of overpayment and recovery activities to facilitate management oversight.	Operational		x	
5	Hardcopies of employee personal information were not consistently filed in the secured filing room in a timely manner.	Operational			x
Total		**5**	**1**	**3**	**1**

1.2 Background

The end-to-end payroll process encompasses the following key sub-processes:

- Employee master data setup and maintenance – HR & Pay Support Services ("HRPSS") creates or updates employee master data records in SAP upon receipt of notifications from authorized parties. Pay rate information are included in the master data records.

- Time capture and evaluation – employees are setup in Tempus, the time reporting system. Time entries (or time exceptions for salaried employees) are approved in Tempus by supervisors and uploaded to SAP for time evaluation and pay processing.

- Pay processing – Pay Services initiates payroll calculations based on defined pay processing schedules. The process is automated: SAP calculates the gross and net pay, and creates payroll accounting entries based on pre-defined parameters. At pay exit, payment files are transmitted to the bank for direct deposits and accounting entries are posted.

From time to time, Pay Services also process payments outside of scheduled cycles (i.e. off-cycles), or "bulk uploads" for one-time payments not dependent on Tempus time entries (e.g. bonus and allowances). Time evaluation or system errors that arise during the payroll cycles are primarily investigated and cleared by HRPSS.

As if June 30, 2019, OPG has approximately 11,000 employees on its payroll – including regular, seasonal, construction and term employees. These employees are governed by different compensation frameworks and are paid at a weekly, bi-weekly or monthly frequency depending on their employment type and personnel area. On an annual basis, approximately 100 on-cycle payroll runs are initiated.

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

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

1.3 Objective & Scope

The objective of this audit was to assess the design and operating effectiveness of controls and processes for OPG's payroll process.

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

A. Governance
• Payroll procedures were adequately defined to provide guidance for accurate, complete and timely payroll processing; and • Staff were cross-trained to provide adequate coverage over various pay types where pay processing procedures might differ.
B. Employee Master Data Maintenance
• Updates to employee master data were authorized and applied accurately; and • Updates to employee master data were made in a timely manner to ensure pay, or discontinuance in pay in case of termination / long-term disability, were processed on time.
C. Payroll Processing
• Exceptions (e.g. system interface errors, time evaluation and payroll calculation errors) arising throughout the payroll cycle were investigated and resolved to ensure accurate, complete and timely pay processing; • Off-cycle payments were processed in an accurate manner; and • Statutory remittances were processed in an accurate, complete and timely manner.
D. Fraud Considerations
• Creation of fictitious / ghost employees in the employee master file; • Prolonging pay to terminated employees by delaying updates to employee master file; • Unauthorized alteration of pay rates; and • Unauthorized alteration of employees' banking information to divert pay.
E. Opportunities for Improvement
• There were potential opportunities for cost recoveries and savings related to efficiency of processes and documentation (e.g. automation, duplication of activities).

Scope Period: The scope included activities from July 1, 2018 to June 30, 2019.

Scope Considerations and Exclusions:

- The audit included the pay processing for active employees. OPG pensioners and employees on long-term disability were excluded from the engagement.

- The following processes were excluded from the scope of the audit, as they were tested annually through the Internal Control over Financial Reporting (ICOFR) program and no deficiencies had been noted in the past two years:

  - Administration and periodic validation of access rights to SAP (Pay Module and Master Data), Tempus and ScotiaConnect;

  - Review and approval of time entries (or time exceptions) in Tempus;

- SAP's execution of payroll calculation and accounting;
- Management of SAP configuration changes;
- 3-way reconciliation – Payroll Register, Accounting and Payment; and
- Bank reconciliation.

1.4 Conclusion

Our review identified some issues in the controls and processes around payroll, specifically in the areas of employee master data update, payroll adjustment analyses and overpayment monitoring. These issues require remediation to improve the accuracy of payroll processing. While errors are expected in a transaction processing function, mechanisms need to be established to identify and correct payroll errors in a systematic and timely manner, as well as monitor performance for continuous improvement.

Positive Observations

- Activities in the payroll processing group were supported by comprehensive process guidelines and checklists that were updated on a regular basis; and
- HRPSS management had developed a comprehensive training plan for the department. The plan identified the proficiencies and competencies of each employee, thereby enabling the identification of knowledge gaps within the department and training opportunities for individuals.

Findings & Recommendations

- Several issues were noted in the employee master data update process as below:
  - Employee master data updates should be independently verified to ensure that these changes, which could be payroll-sensitive, were accurate and authorized. The existing process, however, relied solely on the inputters' self-checks. Independent verification was not required;
  - In January 2019, an automated exception report was introduced to help supervisors monitor the completion of self-checks over master data changes. However, the report was not producing the expected results. Management noted false positives in the report, but the full extent of the issue was yet to be determined;
  - Management had developed data integrity reports to flag inconsistencies in employee master data. IA found that the reported items were not always investigated in a timely manner, with a couple of them taking over four months to be verified. Verification confirmed that these items were not true errors and did not require pay adjustments; and
  - Five out of 30 (17%) retroactive payroll adjustments sampled were caused by master data errors and had impact on pay. All five were due to incorrect set up of pay rates, with three resulting in overpayments to employees. A sixth sample, also resulting in an overpayment, was due to erroneous information provided by the line. Management's assessment process was followed to pursue recovery on overpayments. In two cases partial recovery was obtained and in two, the assessment concluded that recovery was infeasible.

Management should implement an independent review of master data changes, liaise with New Horizon to correct the issue with the exception report and clarify expectations with staff to ensure timely resolution of master data inconsistencies.

- Our review found that slightly over 1% of terminated staff had remained on payroll beyond their termination dates, due to late notification from HR or Line Management. Management should reinforce with stakeholders the requirement to provide termination notifications in a timely manner.

- Itemized reporting of payroll overpayments, outstanding recoveries / claims and write-offs for both active and terminated employees was not prepared and regularly reviewed by management. A process should be developed to track and periodically report on this information to facilitate management oversight.

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 plans.

Opportunities for Improvement

Master data change requests and inquiries are submitted to HRPSS through the Remedy ticketing system. The following inefficiencies were noted in the process of managing the tickets:

- Remedy tickets were often reviewed and triaged twice before assigned for follow-up – first for distribution to the relevant HRPSS team, and the second time for assignment to specific team member; and

- Duplication of effort might occur when several tickets are raised for the same issue. The repeated nature of these tickets might not be recognized during the triage stage, and hence be assigned to multiple staff for follow-up.

With the Remedy system update expected to commence next year, management should explore opportunities to streamline the ticket triaging process and introduce data fields to enable easy identification and linking of repeated tickets.

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 A.

1. Controls around master data updates were not adequately designed or operating effectively to ensure accurate payroll processing.	**High**

Accurate updates to employee master data are critical to payroll processing. To prevent errors and unauthorized changes, updates to employee master data should be subject to appropriate verification prior to implementation.

Our examination of the master data setup / change process had identified the following deficiencies:

- HRPSS staff members were required to perform an accuracy self-check of master data updates against source documents prior to pay period exit. These changes were not subject to independent verification by the supervisor or another staff member, before or after pay period exit. Given the sensitive nature of employee master data and the complexity of OPG's pay policies, changes to high-risk data fields (e.g. employment start date, end date, pay schedule) should be independently verified to provide assurance that changes are accurate and authorized;

- Subsequent to each pay period exit, the supervisor would perform a review to ensure that the required self-check had been performed by staff. Changes without evidence of self-check were identified and followed up on. Historically, this was performed through manual comparison of reports. In January 2019, the comparison was automated in the biweekly and monthly pay areas, with anomalies flagged in an exception report. The exception report, however, was not generating the expected results and management had reported the issue to New Horizon System Solutions ("NHSS"). A fix has recently been developed, which management will test in November 2019. In the interim, the supervisory review was suspended. Management had not completed an analysis to assess the exposure during the period the report was not working *(tested as part of 2019 ICOFR Program)*; and

- Five out of 30 (17%) retroactive payroll adjustments sampled were caused by master data errors and had impact on pay. All five were due to incorrect set up of pay rates, with three resulting in overpayments to employees. A sixth sample, also resulting in an overpayment, was due to erroneous information provided by the line. Management pursued recovery of the overpayments in accordance with established processes but did not recover $83K of the $97K total. The remaining 24 adjustments sampled were not due to master data or payroll processing errors, and did not all impact pay (e.g., late vacation entries by employees would only impact the allocation between wage types).

Potential Cause & Impact

Potential Causes:

- Certain manually intensive activities have been automated in an attempt to increase efficiency and generate cost savings. The automation, however, has generated some unanticipated errors that require rectifying; and
- The variety and complexity of payroll rules governing the various employee representations within OPG, as well as the frequency of changes to these rules increased the risk of payroll errors.

Potential Impact:

- Increased number of payroll errors due to unauthorized or inaccurate changes to employees master data; and

- Efforts required to investigate and correct errors further reduce staff's availability, adversely impacting efficiency and timeliness of processing.

Recommendation

Management should:

- Implement an independent peer / supervisory review process to validate the accuracy and authorization of master data changes. The review can focus on high-risk changes (i.e. types of changes with financial impact and/or having high error rate) to ensure optimal use of resources; and
- Liaise with New Horizon to correct the report integrity issue, perform user acceptance test over the new reports and assess the impact of the faulty report over the period of time it was in use.

Management Action Plans

1. Management will introduce a peer review process to require the independent validation of SAP master data updates against source documents for accuracy and appropriate authorization.

   Action Owner: Carolyn Carlson, Senior Manager, HRPSS

   Target Completion Date: December 15, 2019

2. Management has liaised with New Horizon to produce a new exception report, will perform user acceptance test to determine if the new report meets business requirements, and resume the supervisory review once results are found to be satisfactory. The impact that the faulty report has on pay will also be assessed for the period when the supervisory review was not performed, or performed based on a faulty report.

   Action Owner: Carolyn Carlson, Senior Manager, HRPSS

   Target Completion Date: January 2, 2020

2. Data integrity issues in employee master data were not always resolved in a timely manner. **Moderate**

Data integrity analyses are run regularly to identify inconsistencies between related employee master data fields based on pre-defined criteria. These inconsistencies should be investigated and resolved in a timely manner.

IA examined three sets of weekly data integrity reports and noted five inconsistencies which were not resolved in a timely manner – the results are summarized below:

Period Ending	Total # of Inconsistencies	# of Inconsistencies Outstanding by Next Sampled Period	# of Months elapsed (Between Sampled Periods)	Comments
Dec 31, 18	39	3	2 months	Management verified the reported exceptions and confirmed that none of them was true errors requiring pay adjustments. No financial impact.
Feb 28, 19	90	2	4 months	
Jun 30, 19	120	-	-	

Outside of the weekly data integrity reports, Pay Services had performed a one-time analysis in April 2018 to identify potential mismatches between job codes and pay schedules concerning Terms and Appendix A employees. The analysis had identified 81 potential mismatches – summarized as follow:

- Three of the 81 were true errors, which were fully investigated and concluded in December 2018 in conjunction with stakeholders; and
- Majority of the remaining items related to Term employees, where the occupation codes did not appear to match the pay schedules. Management indicated that these were not true errors. Instead, the mapping between pay schedules and occupation codes should be updated to reflect the relationship. While the mapping issue was raised with the relevant department in People & Culture in August 2018, it has yet to be fixed by the end of audit fieldwork.

Potential Cause & Impact

Potential Causes:

- The volume of master data setup / change requests relative to available resources made it challenging to resolve all potential data integrity issues, financial and non-financial, in a timely manner; and
- Some investigations / corrections could be complex in nature and required stakeholder participation, resulting in delays.

Potential Impact:

Some data integrity issues may have pay impact. Delayed investigation of those issues may reduce OPG's ability to recover (in cases of overpayment) or adversely affect OPG's reputation (in cases of underpayment).

Recommendation

Management should clarify expectations with staff on turnaround time in resolving data integrity exceptions. As not all master data exceptions have impact on pay, the expected turnaround time should be based on risks of the exception type.

Management Action Plan
Management will establish clear expectations with the team on the handling of data integrity exceptions (e.g. expected turnaround time, monitoring and tracking requirements). Action Owner: Carolyn Carlson, Senior Manager, HRPSS Target Completion Date: January 15, 2020

3. Several instances were noted where termination was not processed in a timely manner.	**Moderate**

Terminations should be processed in a timely manner to prevent the continuance of pay beyond the employee's effective termination date.

IA examined the population of terminations from July 1, 2018 to June 30, 2019 (2,020 terminations) and found 122 potential instances of untimely termination processing, based on analysis of effective termination dates against last master data action dates. We sampled 17 of the potential instances and found three to be true exceptions, of which at least two were not processed timely by HRPSS due to late receipt of termination notification from Line Management. The three exceptions resulted in continued pay to employees for up to two pay periods beyond termination, and claims were set up for the overpaid amounts. The error rate, when extrapolating the sample-based test results over the full population was 1.07%.

IA also noted that two out of 10 off-cycle payments sampled were related to terminations. Off-cycle processing could be prevented in those cases if termination notifications were provided to HRPSS in a timely manner. Total population of off-cycle payments was 125 from July 1, 2018 to Jun 30, 2019.

Potential Cause & Impact

Potential Causes:
Stakeholders might not have provided termination notifications to HRPSS in a timely manner.

Potential Impact:
Delayed processing of terminations will result in overpayment to former employees, which may not be recoverable.

Recommendation

Management should work with the HR Business Partners to reinforce with Line Management the requirement to provide termination notifications in a timely manner.

Management Action Plan

Management will re-iterate the need to provide termination notifications to the HRPSS for processing in a timely manner with the HR Business Partner community.

Action Owner: Carolyn Carlson, Senior Manager, HRPSS

Target Completion Date: December 31, 2019

4. There was inadequate reporting of overpayment and recovery activities to facilitate management oversight.	**Moderate**

Payroll overpayments and their recoveries should be tracked and regularly reviewed by management to ensure adequate oversight of overpayment occurrences, aging of outstanding recoveries and losses.

IA noted the following based on discussions with management:

- A documented process, with defined roles and responsibilities, is in place for the recovery of overpayments to active employees. A similar process document has not been established for overpayments to terminated employees;
- An itemized list of overpayments, outstanding recoveries / claims and write-offs for both active and terminated employees was not prepared and regularly reviewed by management;
- Aging of outstanding recoveries / claims were not regularly reviewed to assess for bad debts; and
- Separate general ledger accounts were not setup to record write-offs of receivables from either active or terminated employees. This made it difficult to identify and track write-offs.

As of June 30, 2019, employee receivables related to payroll overpayment (G/L Accounts 21330 and 21338) totaled to $318K.

Potential Cause & Impact

Potential Causes:

Lack of prioritization of overpayments as the aggregate balance was not yet material.

Potential Impact:

- Management may not be aware of trends of overpayments and progress of recoveries; and
- Receivable balance maybe overstated without regular review and assessment of recoverability.

Recommendation

A process to track and periodically report on overpayments, aging recoveries / claims and write-offs should be developed to enable management oversight.

Management Action Plan

Management will:

- Centralize the overpayment / recovery process within a single team (i.e. Pay Services);
- Liaise with Credit Risk Management to establish write-off parameters and frequency of assessment; and
- Expand the end-to-end overpayment / recovery process to address terminated employees, write-offs, and the tracking and management reporting requirements.

Action Owners: Bill Faudemer, Senior Manager, Pay Services

Target Completion Date: January 30, 2020

5. Hardcopies of employee personal information were not consistently filed in the secured filing room in a timely manner.	**Low**

OPG-PROC-0088 Management of Employee Personal Information requires that controls be in place to protect employees' personal information from loss or inappropriate access.

Hardcopies of supporting documentation used by HRPSS to update employee master data file should be kept in individual employees' personnel files ("901 Files"). The 901 Files are filed centrally in the "901 Room" at 1600 Champlain Avenue at Whitby. The 901 Room is secured by a passcode lock and as confirmed with Management, only HRPSS staff at 1600 Champlain Avenue has knowledge of the passcode. While there is adequate security control over the filing room, Management acknowledged that supporting documentation are not always filed in the 901 Room in a timely manner. These documents may be filed temporarily in HRPSS staff members' file cabinets and are not tracked.

As mitigations, softcopies of all supporting documentation are available in the REMEDY and On-Boarding Centre workflow systems, should the hardcopies be misplaced or lost. Access to OPG's 1600 Champlain Avenue office is also restricted through use of pass cards.

Potential Cause & Impact

Potential Causes:

- Documentation filing might be considered a low priority task when compared with other competing priorities; and
- Some master data change requests might take days to complete. Documents are kept at staff's cabinets for convenience reasons.

Potential Impact:

[redacted]

Recommendation

Hard copies of documents used to support changes to employees' master data should be filed in the 901 Room as soon as possible after processing to minimize unauthorized access and disclosure. Centralized and systematic filing systems will also allow for easy retrieval of documentation in case of absences or staff turnover.

In the long-term, Management should consider implementing a digital solution for personnel files. Moving to digital files will save storage space, provide easier but controlled access over sensitive personnel information.

Management Action Plan

Management will reinforce with staff the expectation of locking up confidential personnel documents at the end of each shift. An Office Support Representative has been hired to assist with backlog filing, with the eventual goal of moving to a digital 901-filing platform.

Action Owner: Carolyn Carlson, Senior Manager, HRPSS

Target Completion Date: December 31, 2020

APPENDIX A – RATING DEFINTIONS FOR AUDIT REPORTS

Finding: *Noted deficiency with potential impacts to the achievement of business unit/process area objectives, assessed using the following criteria:*

	High Risk	Moderate Risk	Low Risk
Safety & Social License	• Potential regulatory non-compliance. • Deficiencies that could result in: ○ Fatality, permanent disability, or lost time injury; ○ Data loss or unavailability of critical systems; ○ Security is compromised in sensitive / multiple areas; or ○ Fraud / theft.	• Insufficient evidence to support regulatory compliance. • Deficiencies that could result in: ○ Minor injury with no lost time; ○ Temporary data loss or unavailability of non-critical systems; ○ Security is compromised; or ○ Fraud / theft with some mitigating controls.	• Documentation improvements to support regulatory compliance. • Deficiencies that could result in incidents that do not require medical treatment.
Financial	• Potential loss or financial impact =>5% of the sample population's value, or the department's OM&A budget if the former is unavailable.	• Potential loss or financial impact >=2% and <5% of the sample population's value, or department's OM&A budget if the former is unavailable.	• Potential loss or financial impact <2% of the sample population's value, or department's OM&A budget if the former is unavailable.
Operational Excellence	• Governance non-compliance or lack of/inadequate controls that may impact achievement of business or project objectives. • Errors in or insufficient internal reporting that drives senior management decision making. • Test results where =>25% of the sample had deficiencies in the execution of a key control.	• Governance non-compliance or lack of/inadequate controls with alternate controls in place to mitigate the impact to business or project objectives. • Errors in or insufficient internal reporting that could affect management decision. • Test results where >=10% and <25% of the sample had deficiencies in the execution of a key control.	• Governance compliance with procedural concerns or documentation issues which could impact OPG's ability to demonstrate appropriate due diligence. • Errors in or insufficient internal reporting that has minimal decision making impact. • Test results where <10% of the sample had deficiencies in the execution of a key control.

Opportunity for improvement: *Observation with no risk impact that is provided to management for consideration to improve efficiency of processes and documentation (e.g. automation, duplication of activities).*

OVERALL REPORT RATING SCALE

An overall audit rating is assigned based on the number of observations identified for the audit and their assigned risk rating:

	Number of Findings			
Finding Risk Rating	**1**	**2**	**3 - 4**	**=> 5**
High	Requires Improvement	Not Effective	Not Effective	Not Effective
Moderate	Generally Effective	Generally Effective	Requires Improvement	Not Effective
Low	Effective	Effective	Generally Effective	Requires Improvement

APPENDIX B – PROCESS OWNER & DISTRIBUTION LIST

Distribution:

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Timothy Fenton
Chief information Officer

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VP Shared Services

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	Alex Kogan	Chief Controller & Accounting Officer
	Barbara Kerr	Director Controllership
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	Janice Ding	Director, Internal Audit
	Erica Astle	Senior Manager, HR & Pay Support Services
	Carolyn Carlson	Senior Manager, HR & Pay Support Services (Acting)
	Bill Faudemer	Senior Manager, Pay Services
	Grace Jue	Senior Manager, Internal Audit
	Giselle Contaste	Manager, Internal Audit
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