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REPORT 1, BUILDING AND IMPLEMENTING THE PHOENIX PAY SYSTEM, OF THE 2018 SPRING REPORTS OF THE AUDITOR GENERAL OF CANADA

Report of the Standing Committee on Public Accounts

The Honourable Kevin Sorenson, Chair



**NOVEMBER 2018
42nd PARLIAMENT, 1st SESSION**

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Chair**

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NOTICE TO READER

Reports from committee presented to the House of Commons

Presenting a report to the House is the way a committee makes public its findings and recommendations on a particular topic. Substantive reports on a subject-matter study usually contain a synopsis of the testimony heard, the recommendations made by the committee, as well as the reasons for those recommendations.

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THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

has the honour to present its

FIFTY-THIRD REPORT

Pursuant to its mandate under Standing Order 108(3)(g), the Committee has studied Report 1, Building and Implementing the Phoenix Pay System, of the 2018 Spring Reports of the Auditor General of Canada and has agreed to report the following:



REPORT 1, BUILDING AND IMPLEMENTING THE PHOENIX PAY SYSTEM, OF THE 2018 SPRING REPORTS BY THE AUDITOR GENERAL OF CANADA

INTRODUCTION

The Office of the Auditor General of Canada (OAG) outlined that, in 2009, “the Government of Canada started an initiative to replace the 40-year-old system it used to pay 290,000 employees in 101 departments and agencies.”¹

Additionally, “Public Services and Procurement Canada [the Department or PSPC] was responsible for this initiative. The Department undertook two projects to support the initiative. One was to centralize pay operations for 46 departments and agencies in a new Public Service Pay Centre in Miramichi, New Brunswick. The second was to switch to a new pay system for all departments and agencies. The initiative took seven years to complete and had a budget of \$310 million, including \$155 million to build and implement the new pay software. The government expected the initiative to save it about \$70 million a year, starting in the 2016–17 fiscal year.”²

The OAG also stated that PSPC “centralized the pay advisors for 46 departments and agencies between May 2012 and early 2016. The remaining 55 departments and agencies kept their approximately 800 pay advisors to process pay for their own employees.

“In June 2011, after a public competition, [PSPC] awarded a contract to International Business Machines Corporation (IBM) to help it design, customize, integrate, and implement new software to replace the government’s old pay system. The Department chose a PeopleSoft commercial pay software, which was to be customized to meet the government’s needs. The Department called this system ‘Phoenix.’

1 Office of the Auditor General of Canada (OAG), [Building and Implementing the Phoenix Pay System](#), Report 1 of the 2018 Spring Reports of the Auditor General of Canada, para. 1.1.

2 Ibid., paras. 1.2 and 1.3.



“Development of Phoenix began in December 2012 and was implemented in two waves. The first wave included 34 departments and agencies on 24 February 2016, and the second wave included the remaining 67 departments and agencies on 21 April 2016.”³

The OAG’s 2017 fall performance audit of Phoenix pay problems found that, as of June 2017, there were 494,500 outstanding pay requests. Pay errors totalled \$520 million in overpayments or underpayments.⁴

The various organizations’ roles were as follows:

- **Public Services and Procurement Canada:** The Department “led the development of the Phoenix pay system and is responsible for operating and maintaining the system and providing instructions to Phoenix users. It is also responsible for operating the Miramichi Pay Centre. At the Pay Centre, pay advisors use Phoenix to initiate, change, or terminate employees’ pay by directly inputting information based on requests received from the 46 departments and agencies that rely on the Pay Centre. The other 55 departments and agencies do not use the Pay Centre and are responsible for inputting pay information in Phoenix for their employees.

“Three [PSPC Phoenix] executives ... were responsible for delivering the Phoenix pay system. The Deputy Minister of the Department was responsible for ensuring that a governance and oversight mechanism to manage the project was in place, documented, and maintained, and that the project was managed according to its complexity and risk. During the seven years it took to develop Phoenix, up to and including its first wave, three different people served as Deputy Minister.”⁵

- **Treasury Board of Canada Secretariat (TBS):** TBS “supports the Treasury Board as the public service employer. The Treasury Board determines and regulates pay, hours of work, and other terms and conditions of employment. [TBS] provides departments with direction and guidance on how to implement Treasury Board pay policies. [TBS] also promotes

3 Ibid., paras. 1.4 to 1.6.

4 Ibid., para. 1.7. For further information, refer to OAG, [Phoenix Pay Problems](#), Report 1 of the 2017 Fall Reports of the Auditor General of Canada.

5 Ibid., paras. 1.8 and 1.9.

government-wide sharing of information and best practices on pay and provides documented business processes for human resources.”⁶

- **Departments and agencies:** Federal organizations “are responsible for ensuring that their human resource systems and processes are compatible and integrated with Phoenix. They must ensure that the information needed to pay employees is entered on time and accurately into Phoenix. Departments and agencies must also review and authorize pay to be issued to employees.”⁷

In the spring of 2018, the OAG released a performance audit whose purpose was to determine whether PSPC “effectively and efficiently managed and oversaw the implementation of the new Phoenix pay system.”⁸

On 14 June 2018, the House of Commons Standing Committee on Public Accounts (the Committee) held a hearing on this audit. From the OAG were Michael Ferguson, Auditor General of Canada (AG) and Jean Goulet, Principal. From TBS were Peter Wallace, Secretary of the Treasury Board of Canada, and Sandra Hassan, Assistant Deputy Minister, Compensation and Labour Relations Sector. Lastly, from PSPC were Marie Lemay, Deputy Minister, and Les Linklater, Associate Deputy Minister.⁹

FINDINGS AND RECOMMENDATIONS

A. Managing the Development of Phoenix

1. Functions Needed to Process Pay

The OAG found that, “before implementing Phoenix, Phoenix executives did not ensure that it could properly process pay. When the system was put in place, it could not perform some critical pay functions, such as processing requests for retroactive pay. The Department knew about many of these critical weaknesses before implementing the

6 ibid., para. 1.10.

7 ibid., para. 1.11.

8 ibid., para. 1.15.

9 House of Commons Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, 14 June 2018, [Meeting No. 105](#).



Phoenix system.” According to the OAG, “these weaknesses were serious enough that the system should not have been implemented.”¹⁰

The AG said that “Phoenix executives ignored obvious signs that the Miramichi pay centre wasn’t ready to handle the volume of pay transactions, that departments and agencies weren’t ready to migrate to the new system, and that Phoenix, itself, wasn’t ready to correctly pay federal government employees.”¹¹

According to the OAG, “[in] the spring of 2012, after the planning phase of Phoenix, IBM told [PSPC] that Phoenix would cost \$274 million to build and implement. The Treasury Board had approved a Phoenix building and implementation budget of \$155 million in 2009.”¹² According to the AG’s testimony, when the project executives “went to IBM to say what they wanted the system to do, IBM said it would cost \$274 million. That was when the project executives decided to reduce the functionality in the system.”¹³

The Phoenix executives “did not re-examine the system’s expected benefits after they decided to significantly scale back what Phoenix would do. They should have known that such a significant change in the project scope could put the system’s functionality and projected savings at risk and undermine the government’s ability to pay its employees the right amount at the right time.”¹⁴

2. Testing Phoenix

The OAG found that PSPC “could not show that the Phoenix functions that had been approved as part of the February and April 2016 implementations were in place by those dates and were fully tested before implementation. The Department had identified 984 functions that it needed to include in the February and April 2016 implementations so that pay advisors could process pay;” the OAG reviewed 111 of them and found that “30 of these 111 functions were not part of Phoenix when departments and agencies started to use it – the functions had been either removed or deferred. The decisions to

10 OAG, [Building and Implementing the Phoenix Pay System](#), Report 1 of the 2018 Spring Reports of the Auditor General of Canada, para. 1.31.

11 House of Commons Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, 14 June 2018, [Meeting No. 105](#), 1535.

12 OAG, [Building and Implementing the Phoenix Pay System](#), Report 1 of the 2018 Spring Reports of the Auditor General of Canada, para. 1.32.

13 House of Commons Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, 14 June 2018, [Meeting No. 105](#), 1620.

14 OAG, [Building and Implementing the Phoenix Pay System](#), Report 1 of the 2018 Spring Reports of the Auditor General of Canada, para. 1.35.

remove or defer some of these functions, such as the processing of retroactive pay, led to increases in outstanding pay requests and pay errors.”¹⁵ The OAG also found that, for the remaining 81 functions it reviewed, “20% did not pass testing by [PSPC] before implementation. The Department did not retest the functions that failed the original testing.”¹⁶

In order to “assess whether Phoenix was ready government-wide, [PSPC] had planned to conduct a pilot implementation with one department. A pilot would have allowed the Department to determine if the system would work in a real setting without affecting pay that was still being processed by the old pay system.” However, the OAG found that in June 2015, “Phoenix executives cancelled the pilot because of major defects that affected critical functions and outstanding problems with system stability, and they did not have enough time to reschedule the pilot without delaying Phoenix implementation. They decided that rather than delaying Phoenix, there would be no pilot.”¹⁷ An IBM representative further explained that “the overall solution, including the business processes, the training of the people and the software were not ready for that pilot.”¹⁸

3. Security, Privacy Protection and Accessibility Requirements

The OAG found that “Phoenix executives implemented Phoenix even though it did not comply”¹⁹ with security, privacy protection and accessibility policies. Peter Wallace, Secretary of the Treasury Board, stated that TBS “fully accept[s] that and [is] deeply concerned about that.”²⁰

4. Software Upgrade

The OAG found that, “when building Phoenix, [PSPC] did not plan for future upgrades to PeopleSoft, the software application on which Phoenix was built. The Oracle Corporation, the owner of PeopleSoft, was expected to stop supporting the version used by Phoenix in 2018. Although the Department informed [the OAG] that it had secured a

15 Ibid., para. 1.36.

16 Ibid., para. 1.37.

17 Ibid., para. 1.40.

18 Senate, Standing Committee on National Finance, *Evidence*, 1st Session, 42nd Parliament, 28 March 2018, [Issue No. 62](#).

19 OAG, [Building and Implementing the Phoenix Pay System](#), Report 1 of the 2018 Spring Reports of the Auditor General of Canada, para. 1.41.

20 House of Commons Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, 14 June 2018, [Meeting No. 105](#), 1610.



one-year extension to its maintenance contract with the Oracle Corporation, not planning to upgrade is a significant omission that puts the system’s long-term viability at risk.”²¹

5. Contingency Plan

PSPC “finalized a limited contingency plan for Phoenix less than two weeks before its implementation in February 2016” that “mostly outlined what to do if Phoenix failed to operate; the plan did not anticipate scenarios with system or process problems, such as the ones that occurred after implementation.”²²

Therefore, the OAG made the following recommendation:

For government-wide information technology projects under its responsibility, Public Services and Procurement Canada should ensure the following:

- Its project managers understand and communicate to concerned stakeholders the impacts of any changes to functionality, including any impacts of the cumulative effect of all changes;
- The project complies with relevant legislative and policy requirements;
- The project includes plans for keeping the software current; and
- The project includes a complete contingency plan.²³

PSPC’s Management Action Plan outlines six milestones (A to F) to respond to the OAG’s recommendation:

- A. “Review departmental project management instruments, as informed by the OAG’s recommendations and Goss Gilroy’s lessons learned,” the latter being a consulting firm which undertook a study “to identify gaps in the project management framework, in particular in relation to project management requirements for government-wide IT projects,” and issued a report in 2017.

21 OAG, [Building and Implementing the Phoenix Pay System](#), Report 1 of the 2018 Spring Reports of the Auditor General of Canada, para. 1.45.

22 Ibid., para. 1.46.

23 Ibid., para. 1.48.

- B. “Develop a plan to address the gaps identified in milestone A, including identifying the need for new/updated departmental project management instruments and/or new/updated government project management instruments, as required.
- C. “Implement the plan developed in milestone B by updating existing and/or developing new departmental project management instruments, as well as supporting the update of existing and/or development of new government project management instruments.
- D. “Review and re-define PM [project management] training program as necessary to ensure:
 - emphasis on PM capabilities for government-wide IT projects in line with TBS guidelines;
 - lessons learned are incorporated.
- E. “Declare NPMS [National Project Management System] as the mandatory Project Management Framework for government-wide IT projects for all PSPC-led projects.
- F. “Ensure active participation of PSPC project managers in the government-wide community of practice by fostering participation in central agency initiatives to strengthen project management capacity.”²⁴

Therefore, the Committee recommends:

Recommendation 1 – Regarding IT project management

That, by 31 May 2019, *Public Services and Procurement Canada*, in consultation with the *Treasury Board of Canada Secretariat*, present to the House of Commons Standing Committee on Public Accounts a report on the project management system for Government of Canada IT projects, including all of its requirements and steps.

6. Engaging Departments and Agencies in Building Phoenix

According to the OAG, PSPC “did not effectively engage the seven client departments and agencies [selected by the OAG] to identify what they needed Phoenix to do to

24 Public Services and Procurement Canada (PSPC), [PSPC Management Action Plan](#), pp. 1 to 4.



process pay.” Furthermore, PSPC “did not share a complete list of functions with departments and agencies and did not give them a chance to review or approve the functions to confirm that the system met their needs.”²⁵ The departments and agencies included in the audit “did not receive enough information to meaningfully help build Phoenix or move to the new system.”²⁶

7. Supporting Departments and Agencies in Preparing to Move to Phoenix

According to the OAG, PSPC “reduced the scope of the work so that the work could be done within the approved Phoenix project budget. As a result, fewer IBM and [PSPC] employees were assigned to help departments and agencies move to Phoenix.”²⁷

Therefore, the OAG made the following recommendation:

For government-wide projects under its responsibility, Public Services and Procurement Canada should:

- ensure that requirements to move to a new system are defined and implemented with the active participation of all concerned departments and agencies, and
- ensure that all concerned departments and agencies are consulted and actively participate in the project’s design and testing.²⁸

Once again, PSPC responded to the OAG’s recommendation in its Action Plan, this time with five milestones to foster participation among departments and agencies during the planning of government-wide projects. The first four milestones are to ensure that the roles for each organization are clearly defined, and that independent performance measurement frameworks are in place. Milestone E explains that the first four milestones are to be incorporated into project approval documentation.²⁹

Given that each of these milestones is ongoing, the Committee recommends:

25 OAG, [Building and Implementing the Phoenix Pay System](#), Report 1 of the 2018 Spring Reports of the Auditor General of Canada, para. 1.54.

26 Ibid., para. 1.57.

27 Ibid., para. 1.60.

28 Ibid., para. 1.61.

29 PSPC, [PSPC Management Action Plan](#), pp. 3–4.

Recommendation 2 – Regarding the measures required when PSPC implements government-wide projects

That, by 31 May 2019, *Public Services and Procurement Canada*, in collaboration with the *Treasury Board of Canada Secretariat*, provide the House of Commons Standing Committee on Public Accounts with a report on the four milestones that will be integrated into the approval documentation for government-wide projects.

B. Deciding to Implement Phoenix

1. Review of Miramichi Pay Centre Readiness

The OAG found that PSPC “vastly overestimated the Miramichi Pay Centre’s capacity and readiness to handle employee pay files before and after Phoenix was implemented.”³⁰

For example, before “Phoenix, each pay advisor in departments and agencies handled on average 184 employee pay files. [PSPC] expected this number would rise to 200 employee pay files after centralization and then at least double to 400 employee pay files after Phoenix was in place.”³¹ According to the OAG, in July 2015, PSPC “knew that pay advisors in Miramichi could each handle only about 150 employee pay files – well below the 184 pay files before centralization and the 200 pay files expected after centralization.”³² Furthermore, even though “pay advisors were less productive than what was expected of them, Phoenix executives still expected that their productivity would more than double when they started to use Phoenix. Before implementing the system, Phoenix executives should have first determined whether the pay advisors could handle 200 files each with the old system and then reconsidered the assumption that productivity would double under Phoenix.”³³

2. Review of Departments’ and Agencies’ Readiness

The OAG found that “executives did not ensure that departments and agencies were ready to use Phoenix.”³⁴ In December 2015, “departments’ and agencies’ concerns

30 OAG, [Building and Implementing the Phoenix Pay System](#), Report 1 of the 2018 Spring Reports of the Auditor General of Canada, para. 1.68.

31 Ibid., para. 1.69.

32 Ibid., para. 1.71.

33 Ibid., para. 1.72.

34 Ibid., para. 1.73.



about Phoenix caused [TBS] to hire Gartner, an information technology consulting company, to assess departments' and agencies' readiness for Phoenix.

"The Gartner report, delivered on 11 February 2016, identified one risk it considered critical: Phoenix might not be able to pay employees accurately and on time because the system had not been fully tested and because system defects might not be corrected before implementation. The report also identified several risks to the implementation that it considered major, such as new procedures required to process pay with Phoenix that risked not being ready by the time Phoenix was implemented and that risked not being fully understood by departments and agencies.

"Gartner recommended to [TBS] that Phoenix be gradually implemented in a limited number of departments starting with those that had less complicated pay needs. It also recommended that Phoenix and the old pay system be operated in parallel in case anything went wrong with Phoenix. As a recognized practice when replacing an old software system with a new one, both systems would operate in parallel during a certain time to compare their results to ensure that the results of the new system were accurate. [TBS] transmitted the Gartner report to [PSPC] prior to the 26 February 2016 implementation of Phoenix."³⁵

The OAG found that Phoenix executives "did not consider the report's findings and recommendations before Phoenix was implemented."³⁶

3. Review of Phoenix Pay System Readiness

The OAG reported that TBS guidance "recommends that information technology projects undergo independent reviews of readiness to proceed at key decision points, including at implementation.... For the Phoenix project, [PSPC] hired S.i. Systems to do an external review of Phoenix readiness."³⁷ The OAG found that "the review did not comply with the [TBS] guidance on independence, because Phoenix executives had authority over the reviewers. Phoenix executives were involved in developing the reviewers' interview questionnaire as well as the list of interviewees, and approved them. This list did not include representatives from departments and agencies, which

35 Ibid., paras. 1.76 and 1.77.

36 Ibid., para. 1.78.

37 Ibid., para. 1.79.

were therefore not consulted on their readiness for Phoenix. According to the approved list of interviewees, only Phoenix project staff were interviewed.”³⁸

The OAG therefore made the following recommendation:

For all government-wide information technology projects, the Treasury Board of Canada Secretariat should

- carry out mandatory independent reviews of the project’s key decisions to proceed or not, and
- inform the project’s responsible Deputy Minister and senior executives of the reviews’ conclusions.³⁹

In its Detailed Action Plan, TBS proposed a two-step response. First, it would “review and update, as appropriate, the project management related policy instruments with regard to accountability,” as well as the “guidance for independent project reviews.” Second, it would ensure “alignment with the policy instruments” by determining the specific “points subject to independent project review” and ensure that “the conclusions of independent project reviews are provided to the accountable Deputy Head and those senior executives identified in the project’s governance structure who will subsequently be responsible for taking appropriate actions.”⁴⁰

The Committee is somewhat satisfied by the TBS response, but believes that the concept of “independent review” must be established formally. For example, the OAG noted that, in this case, “Phoenix executives had authority over the reviewers.”⁴¹

The Committee therefore recommends:

Recommendation 3 – Regarding the completion of an independent review of all government-wide information technology projects and related information

That the *Treasury Board of Canada Secretariat* provide to the House of Commons Standing Committee on Public Accounts: 1) a report on the changes made to guidance and policies respecting independent reviews, including the clearest possible definition of an “independent review,” by 31 March 2019; and 2) a report on the decision-making

38 Ibid., para. 1.81.

39 Ibid., para. 1.83.

40 Treasury Board of Canada Secretariat, [Treasury Board of Canada Secretariat Detailed Action Plan](#), pp. 1–2.

41 OAG, [Building and Implementing the Phoenix Pay System](#), Report 1 of the Spring 2018 Reports of the Auditor General of Canada, para. 1.81.



processes that determine the specific points subject to independent reviews and on the process for providing the findings of these reviews to the accounting officer, by 31 July 2019.

4. Oversight of the Phoenix Project

According to the OAG, the “Treasury Board Policy on the Management of Projects states that the deputy head of a department is responsible for ensuring that effective project governance and oversight mechanisms are in place and for monitoring and reporting on the management of all projects in the department under the deputy head.”⁴²

However, the OAG found that “there was no oversight of the Phoenix project independent of the project management structure. The project management was organized in such a way that project information that went to the Deputy Minister of [PSPC] came only from Phoenix executives.”⁴³

Moreover, PSPC “put in place many committees to guide the decisions about system design and implementation. However, most of these committees were either chaired by Phoenix executives or had committee chairs directly reporting to them. This meant that information coming from the committees would be provided to the Deputy Minister and to other stakeholders only by Phoenix executives.... The Deputy Minister did not receive Phoenix project status information from independent sources, including [TBS], external reviews, and other departments and agencies.”⁴⁴

5. Independent Advice to the Deputy Minister

The OAG reported that “the Department’s internal audit function considered the risks but did not audit the Phoenix project even though departmental files showed that four internal audits of Phoenix were intended.”⁴⁵ In the OAG’s opinion, “internal audits of the Phoenix project would have given the Deputy Minister an independent source of assurance as part of a review of the project’s management that could have resulted in a different implementation decision.”⁴⁶

42 Ibid., para. 1.89.

43 Ibid., para. 1.90.

44 Ibid., para. 1.91.

45 Ibid., para. 1.95.

46 Ibid.

6. Final Decision to Implement Phoenix

According to the OAG, prior to “going ahead with implementing Phoenix, Phoenix executives knew about serious problems with it, including high security risks and privacy risks. They also knew that the new pay system could not perform critical functions, such as processing requests for retroactive pay or automatically calculating certain types of pay.”⁴⁷

Additionally, at a meeting of the Standing Senate Committee on National Finance, held on 28 March 2018, Beth Bell of IBM Services explained that, even though the system was not ready, Phoenix executives told her that implementation could not be delayed, as they “really needed to go live in full by April 2016 because the compensation advisors had already been given their notices.”⁴⁸

Also, “[on] 29 January 2016, [PSPC] representatives, including Phoenix executives, told deputy ministers and associate deputy ministers that the Department was going to implement Phoenix in two waves, in February and April 2016.... Just before this briefing of the Committee, 14 departments and agencies, including some of the largest in the federal government, told [PSPC] that they had significant concerns with Phoenix.... However, during the Committee briefing on 29 January 2016, [PSPC] representatives assured deputy ministers and associate deputy ministers that these problems had been resolved or that the Department had procedures in place to resolve them.”⁴⁹

The OAG reported that the formal “documents approving the Phoenix project confirm that Phoenix executives were responsible for deciding to implement Phoenix. However, [the OAG] found that the decision to proceed with the implementation of Phoenix was not documented, which was contrary to the requirements of the project and to recognized practices.”⁵⁰ The OAG also found that “Phoenix executives in effect decided to implement Phoenix.”⁵¹ According to the OAG, “they had received more than enough information and warning that Phoenix was not ready to be implemented, and therefore, they should not have proceeded as planned. Phoenix executives prioritized meeting

47 Ibid., para. 1.97.

48 Senate, Standing Committee on National Finance, *Evidence*, 1st Session, 42nd Parliament, 28 March 2018, [Issue No. 62](#).

49 OAG, [Building and Implementing the Phoenix Pay System](#), Report 1 of the Spring 2018 Reports of the Auditor General of Canada, paras. 1.98 to 1.100.

50 Ibid., para. 1.102.

51 Ibid.



schedule and cost over other critical elements, such as functionality and security, resulting in an incomprehensible failure of project management and oversight.”⁵²

The OAG therefore made the following recommendation:

For all government-wide information technology projects under its responsibility, Public Services and Procurement Canada should ensure that an effective oversight mechanism is in place, is documented, and is maintained. The mechanism should first be approved by the Treasury Board of Canada Secretariat and should include the heads of concerned departments and agencies.⁵³

The PSPC Action Plan sets out three milestones to address this recommendation:

- A. “Update existing project management instruments and/or develop new project management instruments, as required, to ensure the framework includes the requirement for a TBS-approved oversight mechanism that includes senior management of concerned department and agencies for all government-wide IT projects under PSPC’s responsibility.”⁵⁴
- B. “Develop a Terms of Reference template for the TBS-approved oversight mechanism.”⁵⁵
- C. “Ensure early establishment of oversight that includes stakeholders, such as a government-wide deputy-head committee.”⁵⁶

The Committee therefore recommends:

Recommendation 4 – Regarding the implementation of an oversight mechanism

That *Public Services and Procurement Canada* provide to the House of Commons Standing Committee on Public Accounts a report on the new instruments in the information technology project management framework by 31 May 2019; this framework must be approved by the *Treasury Board of Canada Secretariat* and include in the process the accounting officers of the departments and agencies concerned by a project.

52 Ibid.

53 Ibid., para. 1.103.

54 PSPC, [PSPC Management Action Plan](#), p. 4.

55 Ibid., p. 5.

56 Ibid.

The OAG further recommended that:

For all government-wide information technology projects under its responsibility, Public Services and Procurement Canada should ensure that its internal audit function provides the Deputy Minister with assurances regarding the projects' governance, oversight, and management.⁵⁷

In response, in its Action Plan, PSPC again established the milestones to be achieved:

- A. "PSPC's internal audit function will define the Department's IT universe of auditable units. The universe will include PSPC's government-wide IT-enabled projects as individual auditable units. These auditable units will be prioritized in terms of risk, complexity, significance, and public visibility, as well as shared accountability and government-wide impact."⁵⁸
- B. "PSPC's annual Risk-Based Audit and Evaluation Plan ... will be informed by the IT universe and will include government-wide IT projects that merit internal audit oversight based on the risk analysis and prioritization process."⁵⁹
- C. "PSPC's internal audit function will conduct assurance engagements of government-wide IT projects identified in its annual risk-based audit plan."⁶⁰
- D. "PSPC's internal audit function will ... explore innovative approaches to provide assurance regarding government-wide IT projects and other major government-wide transformation initiatives that involve multiple departments and agencies."⁶¹

The Committee supports the Action Plan, but is concerned that it does not seem to include guarantees that the findings of internal audits will be applied *before* the implementation of government-wide IT projects. Marie Lemay, PSPC's Deputy Minister, stated that the Department "will ensure that internal audits provide the Deputy Minister with the appropriate assurances regarding project governance, oversight and

57 OAG, [Building and Implementing the Phoenix Pay System](#), Report 1 of the Spring 2018 Reports of the Auditor General of Canada, para. 1.104.

58 PSPC, [PSPC Management Action Plan](#), p. 5.

59 Ibid.

60 Ibid., p. 6.

61 Ibid.



management. We are going to make sure that the Deputy Minister has access to independent advice.”⁶²

Since the various milestones are being, or have already been, met, the Committee recommends:

Recommendation 5 – Regarding internal audits of government-wide information technology projects

That, by 31 May 2019, *Public Services and Procurement Canada* provide to the House of Commons Standing Committee on Public Accounts a report on the new initiatives concerning its internal audits of government-wide information technology projects; the report must also include guarantees that these audits will be completed and their findings applied *before* projects are implemented.

ADDITIONAL REMARKS

The OAG did not want to blame the failure of the development and implementation of Phoenix on a single person or organization. However, the audit report did conclude as follows:

Phoenix executives prioritized certain aspects, such as schedule and budget, over other critical ones, such as functionality and security. Phoenix executives did not understand the importance of warnings that the Miramichi Pay Centre, departments and agencies, and the new system were not ready. They did not provide complete and accurate information to deputy ministers and associate deputy ministers of departments and agencies, including the Deputy Minister of Public Services and Procurement, when briefing them on Phoenix readiness for implementation. In our opinion, the decision by Phoenix executives to implement Phoenix was unreasonable according to the information available at the time. As a result, Phoenix has not met user needs, has cost the federal government hundreds of millions of dollars, and has financially affected tens of thousands of its employees.⁶³

Indeed, according to a report from the Standing Senate Committee on National Finance, rather than “realizing \$70 million in annual savings by centralizing pay operations, the

62 House of Commons Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, 14 June 2018, [Meeting No. 105](#), 1540.

63 OAG, [Building and Implementing the Phoenix Pay System](#), Report 1 of the Spring 2018 Reports of the Auditor General of Canada, para. 1.105.

government will incur approximately \$2.2 billion in unplanned expenditures.”⁶⁴ This estimate was made using figures provided by PSPC.

It is worth restating some of the failures of the Phoenix executives:

- They did not carry out the four planned internal audits, even though, in the OAG’s opinion, these “could have resulted in a different implementation decision.”⁶⁵
- They did not run a pilot project before implementing Phoenix. According to the OAG, “[t]esting and piloting should have taken place to confirm the weaknesses, to determine whether there were more, and to fix or mitigate them.”⁶⁶
- They interfered with the external review conducted by S.i. Systems, resulting in a review that “did not comply with the Treasury Board of Canada Secretariat’s guidance on independence, because Phoenix executives had authority over the reviewers. Phoenix executives were involved in developing the reviewers’ interview questionnaire as well as the list of interviewees, and approved them. This list did not include representatives from departments and agencies, which were therefore not consulted on their readiness for Phoenix.”⁶⁷
- They did not heed the recommendations from IBM or the Gartner report regarding a delayed, gradual implementation of Phoenix.
- They “did not provide complete and accurate information to deputy ministers and associate deputy ministers of departments and agencies, including the Deputy Minister of Public Services and Procurement, when briefing them on Phoenix readiness for implementation.”⁶⁸

The Committee believes the case of the Phoenix pay system merits closer examination given the number of errors made by senior officials; the failure to comply with guidance

64 Senate, Standing Committee on National Finance, *The Phoenix Pay Problem: Working Toward A Solution*, 1st Session, 42nd Parliament, July 2018, p. 6.

65 OAG, *Building and Implementing the Phoenix Pay System*, Report 1 of the 2018 Spring Reports of the Auditor General of Canada, para. 1.95.

66 Ibid., para. 1.31.

67 Ibid., para. 1.81.

68 Ibid., para. 1.105.



from their employer; the additional cost implications; and, above all, the terrible consequences that affected tens of thousands of hardworking federal employees.

The Committee has the greatest respect for the professionalism of the federal public service. Some federal public servants may make unintentional mistakes, like any other public- or private-sector worker. On this point, Ms. Lemay clearly stated that there “weren’t any bad intentions behind it. Nobody acts like this so that the system doesn’t work.”⁶⁹

However, given the severity, number and impacts of the errors listed in this report, as well as the failures to comply with guidance from the employer of the executives responsible for building and implementing Phoenix—that is, the Government of Canada, through TBS—the Committee was appalled and angry to discover that the only consequence of the actions of the three Phoenix executives was that “they did not receive any performance pay that year for implementing the system.”⁷⁰

The Committee has already made a recommendation regarding the accountability regime for senior officials in the public service in its report on the Message from the Auditor General (Recommendation 1) .⁷¹ Nevertheless, the Committee recommends again:

Recommendation 6 – Regarding the accountability regime

That, by 31 March 2019, the *Government of Canada* explore opportunities to improve the accountability regime, including dealing with gross mismanagement or other very serious discrepancies, and report its findings to the House of Commons Standing Committee on Public Accounts.

This recommendation is intended to ensure: 1) that the individuals at fault have been properly evaluated and have faced appropriate consequences; and 2) that, in the future, senior officials follow the Government of Canada’s guidance in order to prevent further failures like the Phoenix pay system.

69 House of Commons Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, 14 June 2018, [Meeting No. 105](#), 1600.

70 *Ibid.*, 1605.

71 House of Commons, Standing Committee on Public Accounts, [Message from the Auditor General, of the 2018 Spring Reports of the Auditor General of Canada](#), Fifty-Second Report, 1st Session, 42nd Parliament, October 2018, Recommendation 1.

CONCLUSION

The Committee found that, as the Auditor General has stated on several occasions, the development and implementation of the Phoenix pay system was an incomprehensible failure. All of the individual causes of this fiasco have been identified. That these causes emerged, despite all the review mechanisms and guidance in place, remains incomprehensible.

The Committee has made six recommendations—four to *Public Services and Procurement Canada*, one to the *Treasury Board of Canada Secretariat* and one to the *Government of Canada*—to ensure these kinds of failures never reoccur.

The Committee was made aware of the very difficult climate that employees of the Miramichi Public Service Pay Centre experienced, which included frequent complaints and daily receipt of acrimonious comments.⁷² The Committee empathizes with these federal employees who have experienced absurd, unimaginable, sometimes extreme situations, and understands their frustration. The Committee recognizes that employees of the Miramichi Center are highly motivated to address and fix federal employees payroll problems but are obliged to use a system that is defective, poorly designed and was implemented too quickly. In addition, these employees have often received inadequate or insufficient training.

Report 1 from the OAG's 2017 Fall reports⁷³ lead to a Management Action Plan from PSPC⁷⁴ regarding fixing the Phoenix pay system. The Committee also made recommendations in its report⁷⁵ to help ensure that the OAG's recommendations are strictly followed. The Committee wishes to reassure the federal government and Miramichi Centre's employees that it is following up with relevant departments to ensure that its recommendations are being implemented. If this is not the case, the Committee may launch new hearings to address the reasons for non-compliance of the Committee's recommendations among responsible federal senior officials.

72 Jen Beard, "[Miramichi Pay Centre workers feeling Phoenix pain](#)," *CBC News*, updated 24 May 2017.

73 OAG, [Phoenix Pay Problems](#), Report 1 of the 2017 Fall Reports of the Auditor General of Canada.

74 PSPC, [Management Action Plan](#).

75 House of Commons, Standing Committee on Public Accounts, [Report 1, Phoenix Pay Problems, of the 2017 Fall Reports of the Auditor General of Canada](#), Forty-Second Report, 1st Session, 42nd Parliament, March 2018.



SUMMARY OF RECOMMENDED ACTIONS AND DEADLINES

Table 1—Summary of Recommended Actions and Deadlines

| Recommendation | Recommended Action | Deadline |
|------------------|--|-------------------------------------|
| Recommendation 1 | <i>Public Services and Procurement Canada (PSPC), in consultation with the Treasury Board of Canada Secretariat (TBS), must present to the Committee a report on the project management system for Government of Canada IT projects, including all of its requirements and steps.</i> | 31 May 2019 |
| Recommendation 2 | PSPC, in consultation with TBS, must present to the Committee a report on the four milestones that will be integrated into the approval documentation for government-wide projects. | 31 May 2019 |
| Recommendation 3 | TBS must present to the Committee: 1) a report on the changes made to guidance and policies respecting independent reviews, including the clearest possible definition of an “independent review;” and 2) a report on the decision-making processes that determine the specific points subject to independent reviews and on the process for providing the findings of these reviews to the accounting officer. | 1) 31 March 2019 2) 31 July 2019 |
| Recommendation 4 | PSPC must present to the Committee a report on the new instruments in the information technology project management framework; this framework must be approved by TBS and include in the process the accounting officers of the departments and agencies concerned by a project. | 31 May 2019 |

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OF THE 2018 SPRING REPORTS BY THE AUDITOR GENERAL OF CANADA

| Recommendation | Recommended Action | Deadline |
|------------------|--|---------------|
| Recommendation 5 | PSPC must present to the Committee a report on the new initiatives concerning its internal audits of government-wide information technology projects; the report must also include guarantees that these audits will be completed and their findings applied <i>before</i> projects are implemented. | 31 May 2019 |
| Recommendation 6 | The <i>Government of Canada</i> must present to the Committee a report exploring opportunities to improve the accountability regime, including dealing with gross mismanagement or other very serious discrepancies. | 31 March 2019 |

APPENDIX A LIST OF WITNESSES

The following table lists the witnesses who appeared before the Committee at its meetings related to this report. Transcripts of all public meetings related to this report are available on the Committee's [webpage for this study](#).

| Organizations and Individuals | Date | Meeting |
|---|-------------|----------------|
| Department of Public Works and Government Services Marie Lemay, Deputy Minister Les Linklater, Associate Deputy Minister | 2018/06/14 | 105 |
| Office of the Auditor General Michael Ferguson, Auditor General of Canada Jean Goulet, Principal | 2018/06/14 | 105 |
| Treasury Board Secretariat Peter Wallace, Secretary of the Treasury Board of Canada Sandra Hassan, Assistant Deputy Minister, Compensation and Labour Relations Sector | 2018/06/14 | 105 |

REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the Committee requests that the government table a comprehensive response to this Report.

A copy of the relevant *Minutes of Proceedings* ([Meetings Nos. 105 and 118](#)) is tabled.

Respectfully submitted,

Hon. Kevin Sorenson, P.C., M.P.
Chair

