



Chief Review Services

**AUDIT OF CIVILIAN
REDUCTION PROGRAM**

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7055-35 (CRS)



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SYNOPSIS

This report presents the results of an internal audit of the Civilian Reduction Program (CRP). The audit was carried out primarily on the first year of the two-year Program.

The Program was introduced in fiscal year (FY) 1994/95 to help achieve major reductions in DND's civilian workforce. The acceptance of the package by approximately 7,400 civilian employees has contributed greatly towards the attainment of reduction targets totalling 13,600 people, or 40 per cent of the civilian workforce, by FY 1999/00.

Once the Program was approved in Budget 94, the managers responsible for the CRP developed and implemented an extensive and effective communications strategy. Based on a sample of about 350 cases, our audit concluded that, from a compliance perspective, the Program was effectively administered. A key area requiring improvement is the monitoring framework to ensure that the objectives of the civilian departure incentive programs are achieved and sustained, and also to ensure that the effects on the composition of the workforce are well understood.

Early in the audit, we provided information from a "lessons learned" perspective on the few CRP situations, such as those dealing with reorganizations and leave without pay, for which policy clarification was required. A requirement for greater control over the administration of training and education benefits was also observed; this has been substantially resolved through the associated provisions of the Early Departure Incentive (EDI).

Overall, our assessment of the Program is positive. This assessment is reinforced by the attention which the responsible managers have given to addressing the reported areas of concern. The responses provided by the Personnel group are included in this report following each set of recommendations.

RESULTS IN BRIEF

1. **Background.** The federal budgets of 1994 and 1995 announced a total reduction of 13,600 civilians for the Department, effectively reducing the civilian workforce by 40 per cent, to 20,000. The Civilian Reduction Program (CRP) was introduced to help achieve this significant reduction and was implemented over two fiscal years (FYs), commencing in FY 1994/95. The CRP provided affected employees with a lump-sum payment of one year's salary, up to \$7,000 in training benefits and additional compensation based on age and years of service, to a maximum cash-out equivalent to two year's salary (including severance pay). Approximately 7,400 civilian employees accepted the CRP package; the cost of CRP benefits is estimated at \$330M. (These figures do not include CRP payments made to employees departing the Communications Security Establishment or Emergency Preparedness Canada; these organizations were not included in our audit scope.)

2. Design and Development. The CRP was developed by a relatively small team of Director General Civilian Human Resource Management (DGCHRM)* staff working under time and secrecy constraints prior to the February 1994 federal budget. Although they would have preferred to have involved more functional experts in the process, the team did prepare a thorough demographic profile to substantiate the need for such a Program.

3. Ideally, the Program could have benefitted from more extensive comparisons to other departure incentive packages, outside of the Public Service (PS). In addition, targeting the package so that employees eligible for pensions or with very few years of service received less than the maximum lump-sum payment (equivalent to 12 months regular pay), could have yielded savings. We recognize, however, that the environment was different when the CRP was developed and that a number of factors influenced the package's design. For example, the "reasonable job offer" guarantee was included in the Workforce Adjustment Directive (WFAD) and, because the CRP was specific to the Department, there was no latitude to include a pension waiver provision in the Program.

4. Coordination and Communications. DGCHRM developed and implemented a comprehensive and effective communications strategy based on best practices observed in other public and private sector reduction activities. CRP materials reflected clear and consistent messages and were disseminated in a timely manner. In addition, to provide them with a basis for making informed decisions, employees throughout the Department were provided consistent financial counselling.

5. Assistant Deputy Minister (Personnel) (ADM(Per)) staff successfully addressed union concerns with the CRP. Union representatives generally indicated that, where possible, the concerns of their membership have been acted upon. This has had a positive effect on union-management relations and added credibility to the Program from the employees' perspective.

6. Implementation. Although our site visits to examine CRP files and to meet with unit managers were completed early in the process, we have concluded that, with the exception of relatively minor systemic calculation errors, CRP benefit payments were effectively administered. In only three per cent of a sample of 350 cases tested did we conclude that the CRP offer was not clearly within the letter or intent of CRP policy. The results of our testing and site visits were presented as lessons learned, and are summarized at Annex A.

7. At some locations we noted that management had been left under-resourced at a particular group and level, usually because the end-state organization had not been finalized before the CRP was implemented. However, again this was noted early on and we have no indication that this led to subsequent staffing from outside the Department. We also found there was a need for policy clarification in some "grey areas" encountered during downsizing activities. For example, the administration of the CRP was complicated in leave-without-pay (LWOP) situations and where significant reorganization activity was involved.

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8. Training and Education Allowance. The terms of the CRP Training and Education Allowance were non-restrictive regarding the types of training that could be pursued, and this led to a somewhat loose administrative framework. While not suggesting an overhaul after the fact, we recommended some specific improvements to the control framework. These improvements included ceasing advance payments, ensuring training plans link to employment opportunities and limiting training to that provided by accredited institutions.

9. Monitoring. Although employee departures under the CRP should be directly contributing to indeterminate salary expenditure reductions, we did not see evidence that the accountability for this relationship was being adequately monitored either at the Unit/Command/Group level or from a macro perspective at NDHQ. There were also concerns with the baselines from which progress is measured, as well as inconsistencies in the definition of one of the measures being used to express targets and to measure results.

10. In addition, the impact of downsizing on the departmental resource mix was not being monitored or given sufficient visibility, nor was the impact of civilian reductions on the entire operating budget. Large amounts of funds were transferred from the personnel (P) budget to the operating and maintenance (O&M) budget in FYs 1994-1996. While it is impossible to determine if a portion of the excess salary wage envelope (SWE) was generated from CRP, there is a risk that the achievement of some SWE reductions through the use of CRP were being offset by additional O&M expenditures.

11. Managers interviewed on site confirmed that reduction activities had proceeded smoothly, due largely to the significant number of employees who actively sought an offer. The fact that offers were often directed only to interested employees contributed to a high take-up rate on CRP offers.

Main Recommendations

12. The following key recommendations have been discussed and agreed to by the former ADM(Per), the Associate ADM(Per) and DGCHRM.

- The departmental monitoring framework should be reviewed to ensure that all key performance indicators are tracked, taking into consideration the monitoring framework recently developed by Treasury Board Secretariat (TBS); DGCHRM has agreed to take the lead in coordinating this activity which will likely require a collaborative effort involving ADM(Finance and Corporate Services), the Vice Chief of the Defence Staff and ADM(Per) staff.
- Controls for the Training and Education Allowance need to be reviewed and modified in some key areas.

- Clarification in some areas of policy direction is needed.

ADM(Per) Group Response

As a result of recommendations on the monitoring framework, a variety of statistical reports are now produced on a monthly basis covering strength reductions, expenditure reductions and demographics, in total and by Command/Group. In addition, support is provided to individual Commands/Groups to assist their monitoring of work force adjustment activities, and weekly reports are prepared to track CRP/EDI/ERI offers, acceptances and departures. With respect to the Training and Education Allowance the recommended actions have been addressed. In terms of policy direction, the very few problematic cases observed attests to the clear communication of CRP policies. However, for the specific policy areas identified, policies have been clarified and adjusted to reflect the EDI regime. For leave-without-pay situations, ADM(Per) Group personnel worked with TBS officials to develop guidelines for all departments.

INTRODUCTION

1. The February 1994 Budget announced expenditure reductions for the Department of National Defence (DND) of approximately \$7B over the period fiscal year (FY) 1994/95 to FY 1998/99. The combined result of this and Budget 95 will be a reduction of 13,600 — 40 per cent of the civilian workforce. The Civilian Reduction Program (CRP), introduced in April 1994, was designed to facilitate these reductions. Approximately 7,400 civilian employees have accepted the CRP package. The cost of CRP benefits alone will be approximately \$330M — including the cost of the training and education benefit but excluding normal severance payments. (These figures do not include CRP payments made to employees departing the Communications Security Establishment or Emergency Preparedness Canada, as these organizations were not included in our audit scope.)

2. The CRP was available to indeterminate civilian employees as a one-time departure incentive package. The package consisted of the following benefits:

- a lump-sum payment equivalent to 12 months of regular pay;
- a CRP supplement that provided employees having five or more years of service with additional weeks of pay based on a combination of their age and years of service;
- a departure allowance (for employees age 50 and over with at least five years of pensionable service); and
- a Training and Education Allowance of up to \$7,000.

3. In reporting on the delivery of the CRP, we have been cognizant of the Treasury Board Secretariat (TBS) audit guide, *The Management of Workforce Adjustment* (September 1996). The issues raised in this report address the need to ensure that management can meet the requirements of the TBS guide.

DESIGN AND DEVELOPMENT

4. The CRP was developed by a relatively small team working under time and secrecy constraints imposed during the months leading up to the February 1994 federal budget. Although the developers would have preferred to have involved more functional experts in the development process, they presented the TBS with a comprehensive Program based on a rationale primarily supported by a detailed DND demographic profile.

5. Due to budget secrecy considerations, Director General Civilian Human Resource Management (DGCHRM)* managers did not have full latitude to access expertise from their own staff, from other relevant areas of the Department or from external sources. For example, Staff Relations and Compensation personnel were not actively involved in the development of the Program; however, they did play an effective role during the implementation of the CRP.

6. Associate Assistant Deputy Minister (Personnel) (Assoc ADM(Per)) managers believed that for the CRP to significantly contribute to personnel reductions, the package would have to be sufficiently attractive. The departmental demographic profile presented to TBS, demonstrated that, compared to the entire Public Service, DND's workforce was, on average, older, and with less formal education, as well as being less well paid and less mobile. Over 80 per cent of the workforce was located outside of the NCR — many in areas where the Canadian Forces (CF) is a prime contributor to the local economy. These factors, combined with the “reasonable job offer” guarantee that existed at the time as part of the Workforce Adjustment Directive (WFAD), represented barriers that the package needed to address in order for it to induce employees to leave.

7. We concluded that the Program could have benefitted from further comparisons to other departure incentive options. We found that the CRP was a very attractive package relative to a number of other public and private sector plans presented in an analysis which we reviewed. Many packages, however, contained pension considerations that can be more attractive to prospective takers than lump-sum payments. The alternative to CRP, the Work Force Adjustment (WFA), did include a waiver of the pension reduction for some early retirees. Because the CRP was specific to DND (i.e., not government-wide) the Department apparently did not have the option to include such a waiver in the Program.

8. Targeting the package — so that individuals eligible for pensions or with very few years of service received reduced benefits — would have reduced program costs. However, the announcement of the CRP in the February 1994 Budget, included a commitment to consult with unions prior to finalizing the Program. This consultation process resulted in an additional benefit for employees with long years of service. We also noted that many of those offered CRP were eligible to opt for the training and education benefit in addition to the maximum CRP financial component payments (i.e., the equivalent of 104 weeks of regular pay). While being careful not to generalize, we suggest that many of the affected employees receiving these maximum payments — who by definition have a combination of years of service and age totalling at least 75, and some of whom are also eligible for an unreduced pension — would not necessarily be in need of an additional retraining benefit.

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IMPLEMENTATION

9. Overall, we determined that CRP benefits were administered effectively except for relatively minor systemic calculation errors. We concluded that the CRP offer was not clearly in accordance with the letter or intent of the CRP policy in only three per cent of a sample of 350 cases tested. These cases principally involved leave-without-pay (LWOP) situations. Our review was completed early in the Program, however, and insufficient time had passed to permit a full assessment of the direct contribution of CRP offers to Salary Wage Envelope (SWE) reductions. This issue will be discussed in the Monitoring Section of this report.

10. As a result of our detailed tests of a sample of CRP transactions and our discussions with Command and base/unit personnel, we identified several issues requiring further attention. For example, we identified the need to clarify the implications of the CRP on the administration of some human resource (HR) policies (e.g., employees on extended leave-without-pay or spousal relocation). We discussed these issues with management early on in the audit and have summarized the main “lessons learned” at Annex A.

11. Minor errors (one or two days salary) in benefit calculations were made in 21 per cent of the sample transactions tested, mainly due to an early systemic problem involving interpretation of the policy. We have briefed managers (locally and at NDHQ) and action has been taken to address the problem and to initiate any required recoveries.

MONITORING

12. Based on program objectives, we developed a list of the key performance indicators that, in our view, managers require to effectively monitor CRP performance and, more recently, the performance of the EDI and Early Retirement Incentive (ERI) Programs. These include, but are not limited to, the following:

- the relationship between the CRP and indeterminate salary expenditures (i.e., calculated savings attributable to CRP should be directly reflected in actual expenditure reductions);
- the volume/types/location of staffing actions;
- the changing composition of the workforce (e.g., ratios of indeterminates to non-indeterminates); and the impact of the Program on civilian workforce demographics in general, including the volume/types/location of contracting for services activity; and
- the measurement of performance against departmental SWE and personnel reduction targets.

13. Most of these and other performance measures are being monitored at the

Command/Group level or, in some instances, by the ADM(Per) or Vice Chief of the Defence Staff (VCDS) organizations. However, for some of the indicators listed above, we see significant opportunities for more effective monitoring.

Relationship Between the CRP and Indeterminate Salary Expenditures

14. The terms of the CRP require that all CRP offers result in a corresponding SWE reduction. We are not, however, aware of any specific monitoring mechanisms in place that reconcile CRP activity to actual SWE expenditure reductions at the Group/Command level and below.

15. At the start of the CRP, DGCHRM expected that the Director Establishment and Personnel Requirements (DEPR) would reduce SWE allocations to Capability Components (CCs), to immediately reflect salary savings generated by the departure of affected employees. This would ensure that each CRP release directly resulted in SWE savings as required under the Program. However, this direct linking of SWE budget reductions to CRP releases was not practical since CCs were assigned budget reductions in total, and the total reduction could be achieved through several means, including CRP releases. In addition, such a direct link would delay budget reductions until CCs actually made CRP offers. Instead, applying the full SWE reductions at the start of the FY was viewed as the best mechanism to ensure an immediate and full achievement of directed budget reductions. However, this does not address DGCHRM's initial concern about ensuring individual CRP releases result in SWE savings. For example, a unit may operate within imposed SWE reductions and still have specific CRP releases that do not result in SWE savings.

16. We did not see evidence of an accountability mechanism for the CRP that required resource managers to identify plans to achieve assigned SWE reductions through the use of CRP. We had expected a plan, rolled up to the Command/Group level, that would identify details such as the number of planned CRP departures and anticipated savings, the planned reductions in overtime spending, the number of non-indeterminate employees to be reduced with associated savings etc., totalling to the assigned SWE reduction. Actual results could then have been presented against the plan with explanations for variances.

17. Without the link to SWE savings even at a macro level, it is very difficult to ensure that the indeterminate salary and SWE expenditure reductions resulting from CRP releases are being maximized. The risk exists that some of the savings achieved through CRP could be reduced through:

- Transfers to, and subsequent expenditures of, operating and maintenance (O&M) funds, as is permitted under the Operating Budget concept; we noted that a net amount of approximately \$160M was transferred from personnel to O&M between FY 1994/95 and FY 1996/97 to-date. While this may have been the result of an inability to staff vacant positions in some organizations due to an earlier hiring freeze, or due to an excess initial allocation of SWE, we are also concerned that it may be related to some of the savings generated from CRP releases.
- Hiring of term/casual employees or potentially indeterminate staff to perform functions that should have been discontinued under the CRP. As captured in the lessons learned at Annex A, we observed that management at some locations may need to acquire resources to maintain essential capabilities following the departure of certain employees under the CRP. A trend toward the hiring of casual workers has been observed. This may be associated with a transitional phase given the many reorganizations and/or it may reflect that duties which were previously carried out by full-time indeterminate staff members are now accomplished through short-term hirings to address cyclical workloads.

18. We attempted to compare the reduction in indeterminate salary expenditures at a macro (CC) level between FY 1993/94 and FY 1994/95 to the reduction we expected because of CRP departures. In the case of one Command, we noted that indeterminate salary expenditures over the fiscal year actually increased despite the CRP activity. We recognize that after a reengineering exercise it is possible that SWE and indeterminate salary expenditures may not decrease, or may in fact increase, because of an improved and more productive resource mix. However, the rationale behind these situations needs to be well documented.

19. In total, we chose a sample of 10 units with relatively significant variances between anticipated and actual savings. These units represented approximately 30 per cent (\$335M) of total indeterminate salary expenditures in FY 1994/95. Salary savings in excess of expectations amounted to \$5.3M at some sampled units, but these were more than offset by salary savings less than expectations of \$7.4M at other units. We were able to obtain reasonable explanations for 70 per cent of the absolute value of the variances. Incomplete data and extensive reorganization activity made it very difficult for some managers to isolate the causes.

20. Payback is another useful indicator of the cost-to-savings ratio of CRP. The recent TBS expenditure management framework for the EDI/ERI Programs establishes a maximum 12 month pay-back guideline as the basis for drawing on the Department's allocation in the Central Reserve for reimbursement of incentive payments. ADM(Finance and Corporate Services) (Fin CS) staff have completed payback calculations for civilian departure incentive programs including CRP, and TB has completed payback calculations related to all DND military and civilian downsizing programs. Although we did not review the methodology for completing either of these calculations, we noted that the departmental results are favourable.

Staffing Actions

21. During our on-site work, we found that some managers approved CRP packages even if this led to their unit being under-resourced at a particular group and level. This can constitute an inappropriate use of the CRP because managers in these situations may be required to replace departing employees in order to maintain essential resource levels and/or skills. Although completed very early in the process, we also attempted to assess the possibility of functions continuing where the associated employees had left with a CRP package. Accordingly, we examined selected Taken on Strength (TOS) transactions in the Civilian Personnel Management Information System (CPMIS) for seven of the locations not visited during the audit conduct, but where there had been relatively significant CRP activity. A few questionable cases were noted but reorganizations have made it difficult to determine if these are in any way linked to CRP. These may instead be based on new requirements or may be in response to cyclical or transitional needs.

Indeterminate/Non-Indeterminate Ratios

22. To ensure that dollar savings are achieved and sustained, it is also important to monitor and compare the salary expenditures for each category of employment tenure: indeterminates, terms, casuals and overtime. Initially, DND HR management staff expected the CRP to result in a greater reduction in terms and other non-indeterminate employees. We were concerned this would reduce workforce flexibility in the future. We observed, however, that the indeterminate to non-indeterminate employee ratio has remained stable throughout CRP implementation — representing approximately 85 and 15 per cent of the total workforce respectively. We did note, however, that within the non-indeterminate workforce there has been a shift towards employment on a casual as opposed to a term basis.

Contracting for Services Activity

23. We examined service contracting expenditures for any indication that managers are attempting to continue functions previously performed by CRP recipients. We noted that temporary help services (THS) expenditures began to increase dramatically in FY 1994/95 — the same time period as the CRP was getting underway. Clerical and administrative support staff have been greatly affected by departmental reductions and these resources are more readily acquired through temporary help agencies if they are still needed on a short-term basis. We recognize that this may not be an indication of the long-term continuation of functions, but rather a temporary situation that can be expected during a transition period. Nevertheless, increases in THS expenditures by 30 per cent in FY 1994/95 over each of the prior two years, followed by a further 28 per cent increase in FY 1995/96, is an indication that this area should be monitored in light of the downsizing activities taking place.

24. We also examined trends in service contracting expenditures — for special and professional services as opposed to THS — at locations where there had been relatively significant CRP activity. In some cases, a potential relationship between these factors was identified. However, given the relatively short period of time that has passed and in which reliable trends can develop, we regarded this data as preliminary.

25. The Chief Review Services (CRS) issued an audit report on service contracting in 1995 which stressed the importance of having good information on departmental contracting activity. This information would also be useful for monitoring situations, other than those involving alternate service delivery situations (ASD), where functions are being contracted out.

Performance Against Departmental SWE and Personnel Targets

26. CRP and other departure incentive programs are key tools used to achieve departmental reduction targets in terms of SWE expenditures and personnel levels. Accordingly, we have reviewed the departmental processes used to manage and monitor progress in achieving SWE and personnel reduction targets. In summary, we found that there are concerns with the baselines from which achievements are measured as well as inconsistencies in some of the measures being used to express targets and to determine the progress made towards these targets.

SWE Budget Planning/Monitoring

27. The target SWE reductions documented in departmental planning guides have varied over the reduction period due in part to successive federal budget reductions. In addition, the ability of CCs to transfer funding between SWE and O&M budgets provides for some flexibility in achieving these targets. Monitoring the success of the reduction program in terms of SWE funding is further complicated by the fact that agreement was not necessarily reached between NDHQ staffs, Groups and Commands regarding the starting point for the SWE. To our knowledge, this definition of initial baseline funding has never been fully addressed or resolved.

28. We understand that the Defence Expenditure Reductions Monitoring and Tracking (DERMAT) report is used corporately to consolidate reduction plans in terms of SWE and full-time equivalent (FTE) targets. Although the DERMAT and the Defence Development Planning Guide (DDPG) present information at different points in time and therefore cannot be fully reconciled, both have reflected the fact that the final SWE reductions required to reach the departmental endstate target of 20,000 FTEs by FY 1998/99 had not been finalized with the Groups and Commands.

29. Just prior to finalizing this audit report, we briefly reviewed the latest Defence Planning Guide (DPG 97). The departmental target was still an end state of 20,000 FTEs — now by FY 1999/00 — but more recently the CCs have been afforded much more flexibility in achieving the required reductions through any combination of SWE, O&M and “apportioned” corporate accounts, such as military pay and national procurement. We noted that the CCs had yet to determine the means to achieve the “reduction targets” of approximately \$60M in FY 1997/98, and the reduction target of greater than \$200M in each of FY 1998/99 and FY 1999/00. However, we noted that a significant portion of the reductions will need to come from the departmental SWE budget if the stated target of 20,000 FTEs is still relevant and is to be obtained (based on the FTE reductions still required and the departmental average SWE used to calculate FTEs in the past).

Personnel Reduction Targets

30. We found that different measures of an FTE are used for departmental reporting purposes. For example, the DDPG and related documents have typically shown FTE levels based on departmental or CC-level computed average salaries, whereas FTEs have been presented in the Estimates as a measure of resource consumption based on hours worked. In addition, we noted that FTE target levels have been presented to the Defence Management Committee in the past as stepped reductions in departmental total FTEs for each year and then have been compared to actual DND population data from the CPMIS. Comparing actual population data with FTEs seems to confuse an issue already complicated by the lack of a common FTE measure.

RECOMMENDATIONS

31. Monitoring the implementation of CRP, EDI, ERI and WFA with reliable and current information is essential to ensure that these Programs are on track and that corrective action can be taken on a timely basis, if necessary. We recommend that the monitoring framework be improved to track and give visibility to all key performance indicators. To do this, a collaborative effort may be required involving staff from within ADM(Per), VCDS and ADM(Fin CS), and we recommend that DGCHRM coordinate this activity and provide the periodic results to ADM(Per) and the Deputy Minister. Some of the specific areas that we suggest be considered are listed below. We have indicated in brackets the organization(s) that we believe are best positioned to address each particular monitoring activity:

- Document changes in the resource mix for the civilian population (DGCHRM);
- Annually identify and follow up on situations where the actual indeterminate salary reductions (or preferably SWE budget reductions) in selected units are less than the savings attributable to employees departing with incentive payments (DGCHRM with assistance from DEPR and possibly ADM(Fin CS) personnel);
- Supplement existing monitoring activities by selectively analysing staffing activity on at least an annual basis (DGCHRM);

- Continue to periodically monitor and report on the payback calculation related to DND personnel reductions, ensuring this calculation is completed according to TBS guidelines (ADM(Fin CS)); and
- Address issues related to personnel reductions monitoring, particularly the need for a consistent departmental FTE measure (Director of Force Planning and Program Coordination (DFPPC) with input from ADM(Fin CS) and ADM(Per) staff).

32. In addition, we recommend that for any future downsizing Program, an accountability mechanism be put into place, so that Groups and Commands down to Resource Centre Managers be required to summarize their plan/strategy for accommodating assigned SWE reductions. We recommend that plans be approved by senior management including, at some point, ADM(Per) in terms of the impact on workforce demographics. Resource managers should then be required to report back on actual results and explain any variances.

ADM(Per) Group Response

33. *As a result of these recommendations, a variety of statistical reports are now available on the Resource Management Information System, which are updated on a monthly basis. These reports cover such subjects as DND Total Population (Indeterminate and term); Civilian Strength Reports; Expenditure Reductions; Civilian Work Force Adjustment reductions by Command/Group; CRP take-up rates; Vacancy Management Reports, Demographics Reports, Employment Equity statistics, etc. In addition to these reports, a variety of specific reports are prepared by D Civ ES staff to monitor CRP/EDI/ERI offers, acceptances and departures on a weekly basis. In cooperation with DEPR, D Civ ES also prepares a monthly report projecting CRP/EDI Committed Payments. A number of specific WFA reports are prepared by D Civ ES staff in response to demands from individual Commands/Groups to assist them in monitoring their own WFA activity.*

34. *Assoc ADM(Per) plans to discuss with CRS the possibility of entering into a collaboration concerning the monitoring of departure incentives and, for that matter, the monitoring of all aspects of human resources management in this Department.*

COORDINATION AND COMMUNICATIONS

35. We found that the early communications undertaken with unions and within the Department were managed very effectively. DGCHRM developed a comprehensive communications plan for the CRP. The use of briefings and print material was supplemented with monthly conference calls that were regarded as being quite useful. Also, upon request, “facilitation teams” composed of union and DGCHRM representatives assisted local managers in communicating CRP details. This positive assessment is based on interviews with officials from various union groups as

well as with departmental line and staff personnel at all levels. We also received feedback from personnel interviewed as to how the ongoing CRP coordination and communications might be strengthened.

36. Some of the points discussed as lessons learned at Annex A (e.g., cases involving the inappropriate use of CRP, determining areas of reduction, etc.) raise some concern regarding the degree of involvement of Command and unit-level Personnel staff in the reduction planning process. Our conclusion from some site visits was that Personnel staff were not actively involved in assessing management's reduction plans and challenging these plans or strategies when appropriate. At some sites visited, both operational planners and Personnel staff indicated they had experienced some difficulties in obtaining prompt decisions from DGCHRM concerning reduction planning strategies or methods for implementing the CRP.

37. Many of the Personnel staff interviewed, both in the regions and at NDHQ, expressed frustration with their inability to obtain basic CRP data from DGCHRM regarding their own organizations. The basis for this frustration is not clear, since DGCHRM/Director Civilian Employment Strategies (D Civ ES) has responded, with somewhat limited resources, to specific requests from units for CRP information. Personnel managers are addressing their information needs by developing in-house information systems, which, in at least one case, involved the services of a consultant. More recently, the CRP information system (CRPIS) has been integrated with the CPMIS, making the CRP and now EDI/ERI data accessible on-line. However, some units may require technical support in order to manipulate and analyse the data effectively.

RECOMMENDATIONS

38. To address communication issues we recommend that DGCHRM:
- a. communicate to Commanders and Group Principals the importance of involving Personnel staff at all levels in the development of reduction strategies and plans; and
 - b. determine whether or not there is a need to support field staff in accessing and manipulating CPMIS data in the implementation of an improved monitoring framework.

ADM(Per) Group Response

39. *Departmental work force adjustment manuals continue to emphasize the importance of involving Personnel staff at all phases of the planning process. The Deputy Minister has recently communicated directly with Commanders of Command/Group Principals to specifically address the role of Personnel advisors in the Alternative Service Delivery review process. Training sessions for managers and human resources advisors continue to reinforce this message.*

40. *D Civ ES staff are working closely with field personnel staff to assist them in analyzing data currently available in CPMIS so WFA activity can be monitored effectively. D Civ ES produces monthly statistical reports on general WFA activity, as well as specific reports when requested by field personnel.*

41. *Furthermore, the acquisition of Peoplesoft, an automated Human Resources Information System used throughout the Government, will provide our Personnel staff with the integrated data base they need. Peoplesoft, which is being designed to serve both military and civilian personnel, will enhance our ability to manage our human resources more effectively.*

TRAINING AND EDUCATION ALLOWANCE

42. The Training and Education Allowance is centrally managed by the Director Continuous Learning Strategies (DCLS). Administration of the allowance has placed a significant burden on DCLS staff who have made every effort to process applications as promptly as possible. Eligible employees, who accepted a CRP offer before 31 March 1996, had up to one year to submit a training plan and can receive benefits over a four-year period.

43. In addition to administering the CRP Training and Education Allowance, DCLS implemented the administrative changes required by the EDI program which commenced 1 April 1996. Our recommendations take into consideration the increased emphasis placed on monitoring under the EDI Training and Education Allowance. Observations can be grouped under:

- approval of individual training plans;
- assessment of training provider; and
- administration of advance payments.

Approval of Individual Training Plans

44. Applicants for the CRP Training and Education Allowance were not required to clearly demonstrate how their training plan will prepare them for a job outside the Public Service. Few of the files reviewed indicated that the applicants had established a link between their proposed training and available employment or business opportunities. Without such information, it is difficult for DCLS staff to assess the employment potential of the training plan.

45. We examined some of the approved training plans and found a minority of cases that, in our opinion, were not in keeping with the spirit of the CRP. We also questioned several cases where training was taken outside Canada. Although, in these instances, the training was somewhat unique in nature, there was no information on the file explaining why the training was not available in the local area or within Canada. We understand that DCLS has already acted to ensure that any unusual cases are reviewed and approved at a more senior level than that which is the norm.

46. Many resources are available to assist applicants in developing and substantiating their proposals. For example, advice and assistance is available from Canada Employment Centres, local business associations, boards of trade and other organizations that might provide local labour market information. The training and education program materials actively encourage employees to obtain such advice and assistance. However, the DCLS approval process does not require the applicant to confirm that such efforts have been made.

47. Counselling services provided during the CRP window period covered financial planning, career transition and stress management. The TBS EDI/ERI Program requires that Departments make available “transition support services”, emphasizing the provision of labour market information as well as career counselling and job search training. An excellent CRP guide has been prepared to help ensure the quality of financial counselling services provided under contract to DND employees. A similar initiative should be considered to establish standards for delivering career counselling services to affected employees.

Assessment of Training Provider

48. *The DND Training and Education Option administration guide* stipulates that “the option may be used to fund training at an accredited private or publicly-funded institution”. However, the Guide does not precisely define what constitutes an accredited institution. In our opinion, this has contributed to the limited assessment by DCLS staff of the training suppliers. Our key concern is whether the training programs provided by the institution can effectively provide students with the skills needed to maximize employment opportunities.

49. The EDI Program states that the allowance may be used to pay for courses at any educational institution in Canada recognized in the Income Tax Act. Other training, including that provided by employers, may qualify if the employee can show it is likely to lead to a job. Many public and private institutions that provide occupational-based training programs are designated as educational institutions. This type of training is specifically aimed at furnishing students with the occupational skills required to meet employment opportunities.

Administration of Advance Payments

50. Upon approval of the training plan, the applicant receives an advance of one half of the training costs to a maximum of \$3,500 (one half of the maximum \$7,000 allowance) to cover equipment costs and course fees. The applicant must return the suppliers' original receipts for payments made against the advance. Further advances are contingent on the applicant submitting receipts totalling the original amount received.

51. In the majority of cases reviewed, trainees had not provided receipts nor had they submitted a follow-up training plan for the approval of additional funds. DCLS was not hastening the negligent individuals to submit outstanding receipts. The longer the delay in obtaining outstanding receipts, the greater the chance that funds might be used for unapproved activities. There is a risk that an individual who has obtained the maximum first advance of \$3,500 may decide to make no further submissions nor provide receipts. Advance payments are not be permitted under the EDI plan.

RECOMMENDATIONS

52. To help ensure applicants have been adequately supported in developing training and education plans, we recommend that DCLS:

- a. require applicants to specifically demonstrate how they believe the training plan will lead to a job outside the Public Service (particularly when they are dealing with Canadian institutions not recognized in the *Income Tax Act*) and how they have taken advantage of the career transition support services, including advice and assistance received from local organizations; and
- b. take measures to ensure that the training offered during the window period provides labour market information and career counselling appropriate to the local area.

53. We recommend that DCLS take measures to obtain the outstanding receipts and, for new casework received before 1 April 1996, institute routine bring-forward procedures to obtain these outstanding receipts.

ADM(Per) Group Response

54. *DCLS investigated the audit recommendation to cease making advance payments. Since the initial legal contract with the applicants stated that they could receive advances, our departmental legal advisors indicated that the Department could not change the process mid-stream.*

55. *Effective 1 April 1996, a letter was sent to all applicants requiring the individuals to link their training plan to employment outside the Public Service, when applying for the training and education option. In addition, DCLS also ensures that any cases perceived to be of higher risk continue to be subject to a rigorous examination and approval at a more senior level.*

56. *The training and education program material actively encourages employees to take advantage of the resources available, such as Canada Employment Centres, local business associations, boards of trade, etc when developing or substantiating their proposals. However, the DCLS approval process does not require the applicant to confirm that such efforts have been made. The Department continues to stress the advantages of seeking the assistance of local centres regarding the local employment market and where deemed appropriate, will ask applicants if they have gone to the career transition centre in their area. The career counselling subject matter experts are contracted locally by Civilian Personnel Officers to ensure that the career counselling given during the window period reflects the local labour market.*

57. *In the majority of CRP cases, the applicants use accredited institutions. However, at times applicants are moving towards future employment where structured courses are not always available, depending on their geographic locations. In these cases, practical alternate learning opportunities are more appropriate. Options include on-the-job training and learning from subject matter experts. With respect to training taken outside of Canada, DCLS requires the applicants to substantiate the unique circumstances of their situation.*

58. *With respect to the administration of advance payments, DCLS has already initiated a process to investigate outstanding accounts. Effective January 1997, applicants with advances outstanding for a period of more than 12 months are being contacted. In addition, approval letters now remind applicants to account for their balance within a 12 month period.*

SUMMARY OF CRP LESSONS LEARNED

Introduction

Early on in the audit, lessons learned were presented based primarily on audit site visits and the review of the personnel files for CRP recipients. These issues are summarized here under the three broad areas of CRP Planning, Implementation and Monitoring.

Planning

Planning and Control of the Reduction Exercise

At some locations we found that management was left under-resourced at a particular group and level because of individuals taking a CRP package.

To correct this situation, we found that some of the fundamentals of the reduction exercise warrant reinforcement. These include the need.

- for active involvement of Civilian Personnel Officers at NDHQ, the Command and base levels, in planning reductions;
- to focus on operations when making critical down-sizing decisions;
- for careful planning to ensure that skills requirements and not seniority or other personnel considerations drive the reduction process; and
- to complete strategic plans and define the end-state organizations prior to implementing the CRP, notwithstanding that the plans may be preliminary.

ANNEX A

Reorganizations

Some confusion has been noted with respect to the application of CRP in situations where a reorganization will result in new positions being created.

- Policy clarification is required with respect to the use of CRP in situations where a reorganization results in the deletion of one function and the creation of another new function. We noted considerable confusion by managers at all levels over this issue.

According to our understanding of departmental policy, employees are eligible for the CRP if their functions are being eliminated, even if the organization has plans in place to staff a new function financed with funds made available from within the Command/Group SWE allocation.

Determining Areas of Reduction

Decisions to define broad areas of reduction (i.e., spanning large organizations) have complicated the reduction process for managers at some locations.

- For Group B situations (i.e., CRP offer made to several similar positions — same functions, group/level, location), managers experienced difficulty limiting the number of accepted CRP requests to established target levels. We observed that the process is most effectively managed if the area of reduction is defined as restrictively as possible.

Implementation***Leave-Without-Pay***

The CRP policy as it applies to leave-without-pay (LWOP) situations needs to be clarified (using a number of case studies as examples), to ensure that CRP offers are within the spirit and intent of the Program and that managers across the Department treat these situations in a consistent manner.

ANNEX A

The CRP policy is not being consistently applied in cases involving LWOP:

- Five CRP departures involving the complex area surrounding LWOP situations were identified that, in our opinion, were not within the spirit of the CRP. These cases involved employees who were on LWOP for medical reasons at the time the CRP offer was made, although there were no indications that these employees would ever return to their respective positions.
- At another location, the policy was strictly (and reasonably, in our opinion) applied in similar cases, by ensuring that medical assessments were completed early on in the reduction process for several employees. Having been assessed as having permanent medical disabilities, these employees were precluded from receiving CRP.
- We also concluded that CRP offers were not justified in three cases involving individuals on LWOP for the purpose of relocating with their spouses.

Retirement

There is a clear advantage to managers ensuring that written notifications of retirement are obtained.

- Only if official notification of retirement was received and accepted by management, were employees ineligible for the CRP. Nonetheless, we identified four cases that we found to be outside the intent of the CRP, although this criterion of written notification had not been met. Where employees have expressed an intent to retire, managers should encourage them to put this in writing.

Departure Dates

Across the sites visited, we observed inconsistent approaches in the determination of employee departure dates.

- Employee departure dates should be based on operational considerations. At some sites, management was willing to significantly amend departure dates based on employees' requests (which normally we would not expect to extend employment beyond a few weeks). Managers must be prudent in amending proposed departure dates, so that the change while ensuring fairness, is cost/beneficial to the department.

ANNEX A

Management of Substitutes and Alternates

Managers interviewed on-site consistently expressed frustration with the departmental decision not to centrally coordinate substitutions under the CRP.

- Given the current time pressures to identify potential alternates and the implications for the affected employees who wish to continue employment under the new ERI/EDI framework, we recommend that consideration be given to developing regional lists of potential alternates.

Processing of CRP Payments

Although not material in nature, some problems were encountered related to the methods for calculating CRP benefits.

- In about 21 per cent of the sample items tested, we found over/underpayments of the CRP lump-sum benefit equivalent to one or two days salary because of a systemic problem related to the number of paid working days to be included in the one-year lump-sum payment. Action was taken to address the problem and any resulting errors. In a further four per cent of the sample items, we found various calculation errors ranging in over/underpayments from \$300 to one underpayment of \$11K, in total netting to an overpayment of approximately \$1K. The appropriate management has been briefed and action has been taken to ensure correcting recoveries or payments were made.

Monitoring*Contracting for Services*

A specific area which merits the attention of management at all levels is contracting for the services of personnel.

- The risk is that managers may seek to maintain functional capabilities slated for elimination through personnel services contracts. This must be differentiated from situations where there exists an approved business plan for contracting-out a function that is still required.

ANNEX A

ADM(Per) Group Response

As outlined in the Audit Report, 97 per cent of the sample 350 cases tested were considered justified. This indicates that overall the CRP benefits were administered effectively which can be attributed in part to the communications strategy that was developed for the CRP. Emphasis continues to be placed on communication and providing clear, and concise policy direction. With the introduction of the EDI effective 15 July 1995, the administration of the CRP changed to conform to the administrative regime of the EDI, in that CRP could only be offered to surplus employees. This fundamental change in turn resulted in a number of changes in policy and procedures (e.g., the elimination of two year departure dates, Group B offers, etc.). These changes were enunciated in a variety of communications tools such as CRP bulletins for personnel officers, managers and employees and an Employee Kit for surplus employees.

Employees affected by reorganizations were generally not eligible for the departure incentive package. However, under the EDI regime, all surplus employees are eligible for the EDI, including those employees who are declared surplus to requirements as a result of reengineering or reorganization. In these situations, it is quite possible that the SWE may not decrease or may even increase due to the cost of different resource levels. Consequently, Treasury Board has acknowledged in its EDI/ERI Monitoring Framework that there will not be a corresponding reduction in salary expenditures in all work force adjustment situations.

Since the introduction of the EDI and ERI, the Treasury Board has published a number of documents in the "Knowing Your Options" series, which provide policy direction on a wide variety of subjects particular to the EDI/ERI programs, such as eligibility criteria, alternation, unpaid surplus status, post-employment regime and probity. These documents have been given wide distribution to both managers and human resource advisors. In addition, the departmental Work Force Adjustment Technical Manual was updated and reissued in June 1996. Included in this manual is a section which deals with the administration of leave-without-pay situations. DGCHRM staff worked with Treasury Board officials to develop guidelines for administering leave-without-pay situations within the EDI/ERI legislative framework. This manual was also updated in August 1996 to include the most recent changes in the July 1996 Work Force Adjustment Directive, dealing with Alternative Delivery Initiatives.