



Chief Review Services

Review of the Integrated Relocation Pilot Program

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The review was initiated at the request of the Compensation and Benefits organization within the Military Personnel Group. It has not been conducted with the rigour of an audit and, as such, the review must ultimately be viewed as falling within the definition of consulting services. However, the observations and conclusions are objective and provide a reasonable basis for recommendations and action. A further caveat is that the report cannot be viewed as providing a comprehensive assessment of the performance of the principal contractor involved in service delivery. This would have required that the contractor have a full opportunity to review the findings and recommendations. This has not occurred.

SYNOPSIS

This report presents the results of a review of the application of the Integrated Relocation Pilot Program (IRPP) within DND. This Program is a Public Service initiative introduced in 1999 to provide employees with re-designed relocation assistance services. In DND, the Program applies to CF members and civilian executives. The review was conducted at the specific request of the Military Personnel Group. It anticipates the replacement of the pilot program in April 2003.

Based on benchmarking and other inquiry, the Program was found to be contemporary and competitive relative to the offerings of other large organizations. Notwithstanding that CF members would welcome a number of specific improvements, an overwhelming percentage favoured retention of the Program. In these measures, it has been a success.

We further observed that service and benefit costs have increased substantially over past arrangements and provisions. Rough-order estimates suggest that benefit costs are in the order of \$39M (i.e., 50 per cent) higher and delivery costs are as much as \$8M higher (albeit that the quality of service is also higher). However, not all of this cost growth is attributable to IRPP. Such factors as travel per diem increases as well as changing demographics and preferences have put upward pressure on costs. Nevertheless, the review has pointed to areas where the structure of specific benefits warrants re-evaluation and where cost-reduction incentives can be built into the contract. For example, there is a trend toward professional fees (e.g., for appraisal services) to be at the ceiling rate. Significant savings were gained in the past when DND exerted its influence in the market place for such services.

Finally, recommendations were made for the immediate strengthening of financial and contract administration.

Management Action (see report page 13) relative to this review demonstrates a sound appreciation of the issues. Indeed, it has made good sense to run a pilot in order to allow time for this practical appreciation to develop.

There is understandable reluctance to erode any of the positive contributions made to the quality of life of CF members and their families. DND will also have to carefully evaluate any specific departures from the government program and attendant contractual arrangements. However, this illustrates the importance of defining DND-specific objectives for the Program and ensuring that money expended delivers an equitable and high-impact mix of benefits/service to CF members. At this stage, there are also economies which can be realized without affecting member benefits.

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We are confident that those charged with the administration of Compensation and Benefits in DND intend to study and pursue the recommendations of this review. Innovative action is already being taken with respect to concerns regarding financial management and contract administration.

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EXECUTIVE SUMMARY

INTRODUCTION

- 1. The Integrated Relocation Pilot Program (IRPP) was reviewed by KPMG, under the guidance of Chief Review Services (CRS), as a component of the Quality of Life Program which was identified for examination in the Fiscal Year (FY) 2000/01 Departmental Review Plan.
- 2. The objective of the review was to assess the success of the pilot relative to its program objectives. This included assessing program reasonableness, management processes and financial and contractual practices and controls. The focus of the review was to provide insight into the relative performance of the program to assist management in developing criteria for the IRPP replacement (i.e., at the conclusion of the pilot).

BACKGROUND

3. The IRPP, a Public Service initiative, was introduced on 1 April 1999. It was designed to provide government transferees with flexible, customized relocation assistance delivered through a contracted service provider. As this new approach provided DND with the flexibility to address many of the Quality of Life (QOL) issues raised by the Standing Committee on National Defence and Veterans Affairs (SCONDVA), the Department became a willing and key player in this pilot initiative.

OVERALL ASSESSMENT

- 4. The review concluded that the program is contemporary and competitive when compared to programs offered by large private sector entities with significant relocation needs. The IRPP which was designed using an "employer of choice" approach, focuses on family issues and supports the corporate Quality of Life philosophy. It integrates a variety of services and activities associated with the permanent relocation of a family. The benefits offered under the program match those of large corporations and the customized component offers an additional competitive element to the program.
- 5. **Program Reasonableness**: The program appears to be addressing many of the family-related issues raised by SCONDVA. Although transferees indicated only "lukewarm" satisfaction with the overall program, they strongly endorsed maintaining the IRPP. CF Members were reasonably satisfied with benefits offered. In fact, the only benefit-related issue raised was in regards to family considerations, specifically the financial and social impact of relocating families. They did, however, identify a number of service-related concerns, which included a lack of consistency in service delivery offered in various locations; the need for improved training of contract staff; and, better explanations of how the program works.

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- 6. **Program Costs**: A limited review of service delivery costs was performed to compare the current program provided by the contracted service provider to DND's pre-IRPP administration. However, as a pre-implementation business case analysis was not performed, complete information on pre-IRPP staffing levels was not available. As well, cost estimates were not fully comparable as the current service delivery through the contractor includes all costs of service delivery, such as training, hardware, software, IT and personnel while those for the pre-IRPP administration were based solely on the cost of personnel.
- 7. Although the two processes are not fully comparable, the review estimated that the current cost, through the contractor, was between \$7.6M to \$8.5M higher than the estimated cost of the pre-IRPP DND administration. Further analysis would be required to assess DND's ability to assume administration of the IRPP and to ensure the same level of transferee satisfaction and information management currently provided. There are also a number of qualitative advantages to the current service delivery arrangement that would have to be considered in an alternate delivery method analysis. Any future business case analysis would require the establishment of clearly defined program objectives against which both cost and qualitative issues could be assessed.
- 8. The benefits provided under IRPP are more costly than the previous Canadian Forces Relocation Program (CFRP) and the Guaranteed Home Sale Program (GHSP). However, although the cost of benefits has risen since the implementation of the IRPP, not all of the increases occurred as a result of the pilot program. Increases were equally attributed to the introduction of new benefits; increases in demand for certain benefits; and from changes in the costs of existing benefits. Analysis also identified that cost savings could be achieved in a number of service delivery areas without a significant impact on member satisfaction.
- 9. **Program Financial Administration**: In regards to financial and contractual practices, KPMG noted a number of variances from the terms of DND's contract with the service provider. Of particular concern was the payment of administration fees with respect to cancelled move files. As well, certain invoicing practices did not follow the terms and conditions of the contract and financial control practices need improvement.

Evolution of the Program: As a new program, the IRPP has and will continue to evolve and improve. DCBA has been and continues to be active in identifying changes to the IRPP to generate cost savings. One of the most significant of these was the change that resulted in unspent Enhanced Core Funding Envelope funds remaining with DND instead of being paid to the transferees. The resulting cost savings to DND, based on a 10,000-move year, is estimated at \$15M. As well, the reduction of real estate appraisals from two to one should result in savings in excess of \$1.0M.

11. **Clarification of Objectives**: Factors that made it difficult to assess whether the program was achieving its desired effect were that neither a documented business case analysis or stated program objectives were established prior to the implementation of the IRPP. The underlying principles for the IRPP were identified to the Armed Forces Council (AFC) before they agreed to go ahead with the IRPP. There is still a need to develop clear program objectives to facilitate the measurement of the value-for-money and effectiveness of benefits, service delivery, program

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flexibility and transferee satisfaction. Establishing clear, measurable objectives will permit ADM(HR-Mil) to self-assess and regularly monitor program success. Internal monitoring will permit DGCB and DCBA to highlight problem areas and trends and perform value-for-money assessments that could lead to the development of business cases to make program improvements.

12. **Management Action**: ADM(HR-Mil) received the review report in a positive, progressive fashion. We saw evidence of innovation that went beyond recommendations made. Their three-prong solution to improve program expenditure verification provides a control framework based on modern technology and risk management that will optimize use of their limited human resources and should help improve dispute resolution and service delivery. The initiative to produce a "member statement" after the move will serve both as a control function and a motivator for transferees as they will gain a better appreciation of the benefits provided for their relocation and hence support DND's "employer of choice" objective.

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REVIEW OBJECTIVES

1. The objective of the review was to assess the success of the pilot relative to its program objectives. This included assessing program reasonableness, management processes and financial and contractual practices and controls. The focus of the review was to provide insight into the relative performance of the IRPP to assist management in developing criteria for the IRPP replacement.

BACKGROUND

- 2. The IRPP is a Public Service initiative which was introduced on 1 April 1999. The government-wide objective of the program was to: "Provide its employees with a full range of relocation assistance services in a formula that marries direct reimbursement of expenditures, of which the transferee has little control over, and a "cafeteria style" approach to benefits providing an opportunity for the transferee to select what is best for him/her (within a funding envelope) under his/her own family-unique circumstances."
- 3. Originally, the IRPP applied to DND, the Royal Canadian Mounted Police (RCMP) and to employees/appointees in the Executive Group, Governor in Council appointees and non-represented employees for whom Treasury Board is the employer. On 1 April 2000, the program was expanded to include represented employees.
- 4. The program was designed to provide transferees posted from one place of duty to another within Canada with customized relocation assistance which would meet participants' particular needs. This included:
 - professional assistance throughout every step of the relocation;
 - increased scope of relocation services; and
 - greater flexibility in the selection of services they could use.
- 5. To accomplish this, the IRPP is subdivided into two components:
 - Core benefits: (composed of Basic Core and Enhanced Core) are designed to cover essential elements of a relocation. Complete reimbursement of essential elements is provided as basic core benefits. Examples of basic core benefits are legal fees for sale/purchase of a home, transportation costs to the new place of duty and costs associated a house hunting trip. There are also enhanced core benefits which include items to enhance the move but that are only reimbursed up to a pre-calculated limit based on supporting receipts. An example of enhanced core benefits is the flexibility to take children on a house hunting trip. For the most part, core benefits offer the transferee the same basic coverage that was available prior to the introduction of the

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- IRPP. While the utilization of the core benefits are not mandatory, the transferee who chooses not to use these provisions forfeits them and any unused available funds remain with the employer.
- Customized benefits: are designed to allow for the selection of benefits tailored to the specific transferee's needs. Transferees may choose from a select list of benefits available on a cafeteria style basis designed to enhance the core elements of the move. Expenses can be reimbursed to the value calculated from "savings" or incentives generated/earned from the Enhanced Core Component provisions, relocation allowances and non-accountable allowances. Any unspent portion of a transferee's Customized Funding Envelope is paid out to the transferee as a taxable benefit. Examples of customized benefits include loss on capital improvements to a home being sold, spousal job search services, certain child care coverage and mortgage default insurance.
- 6. This approach was intended to better respond to the needs of transferees and their dependants, while still ensuring core elements of a move were provided as basic coverage.
- 7. The administration of IRPP was awarded to a service provider through a competitive contract. The contract, which originally expired on 31 March 2001 provided for two one-year extension options. These options were recently exercised resulting in an extended expiry date of 31 March 2003.
- 8. The contractor administers all program benefits, providing transferees with personal counselling services and maintains a directory of qualified service providers who provide assistance to employees on the various aspects of their move e.g., realtors, lawyers, notaries. However, IRPP does not cover household goods removal services (the shipment of furniture and effects).
- 9. Within DND, the program for CF members is administered by the Directorate Compensation Benefits Administration (DCBA).

SCOPE

10. The review excluded the management of moving household goods and effects and the management of the cost move function within ADM(HR-Mil).

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METHODOLOGY

- 11. To accomplish this, the review included:
 - consideration of the IRPP and its success in meeting stated objectives;
 - comparing the IRPP with the best practices of large corporations;
 - evaluating CF members perceptions through telephone interviews, a focus group session and the contractor's customer survey;
 - identifying and assessing trends in benefit costs and usage;
 - analyzing service delivery costs;
 - assessing financial and contractual practices and controls;
 - consolidating findings and preparing a report; and
 - briefing stakeholders and senior management on findings.

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FINDINGS

PROGRAM REASONABLENESS

12. Assessing the reasonableness of the IRPP in meeting its stated program goals requires consideration of the original program goals and objectives, program benefits in terms of their comparability to other Canadian corporations and assessment of the level of transferee satisfaction.

Program Goals and Objectives

- 13. The Military Personnel Group did not complete a documented business case analysis or establish stated objectives prior to implementing the IRPP. DND initially declined immediate participation in the program to allow such analysis to be carried out. However, the Public Service proposal proved to provide flexibility to address many of the Quality of Life (QOL) issues raised by the Standing Committee on National Defence and Veterans Affairs (SCONDVA). As well, the business case, developed for the Public Service, including the RCMP, were found to meet DND needs and objectives. It was therefore decided the Department should "get on board" at the outset of the program to ensure CF members could take advantage of the improved benefits as soon as possible.
- 14. Given this lack of established departmentally-specific program objectives, the Public Service relocation policy objective was used. It requires that in any relocation, the aim shall be to relocate a transferee in the most efficient fashion. That is, at the most reasonable cost to the public, yet having a minimum detrimental effect on the transferee and his/her family and on departmental operations. These objectives are also valid for the CF.
- 15. Within DND, the IRPP was also considered a first step in developing plans to revamp the entire military relocation process to provide a single window, family friendly and client-centered process.
- 16. The program strengths identified through a comparison of the IRPP to large corporations indicate that the program is addressing many of the family-related issues raised in the SCONDVA Report.

Comparison of IRPP to Best Practices of Large Corporations

17. As information was not available to compare the IRPP with other countries' military programs, comparisons were drawn with large corporations, such as banks, which have move populations and relocation patterns similar to that of DND. The best practice review indicated the program is contemporary and competitive when compared to programs offered by large corporations with significant relocation activity. The program is current in its design and in its attempt to address many of the contemporary issues facing transferees e.g., addressing family needs such spousal employment at the move destination and including children on house hunting trips. The benefits offered match those of large corporations and the program appears to have been designed with an "employer of choice" approach.

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- 18. The IRPP has similar characteristics to that of some of the leading edge programs, focusing on family issues and corporate philosophy. Not only are the benefits provided consistent with those offered by large corporations; the IRPP also appears to include certain core and customized benefits that are not available elsewhere. Based on questionnaire responses, the DND program seems unique in its offering of a flexible benefit package to meet the transferee's needs.
- 19. Although the program no longer offers a guaranteed home sale plan, which is often provided by similar organizations, the IRPP addresses this aspect with benefits relating to home equity and capital improvement losses.

Transferee Perceptions of the Program

- 20. Although perceptions gathered from CF members indicated lukewarm satisfaction with the IRPP, interviewees strongly endorsed maintaining the program. Eighty-one percent (81 per cent) of those interviewed recommended maintaining the program and 57 per cent indicated the program improved the move experience. Almost all indicated confusion over program terminology with respect to "enhanced core funding", and "customized funding".
- 21. The focus group participants identified a number of service related concerns, including, in order of priority, the need for:
 - improved information regarding income tax implications;
 - more consistent service delivery and information;
 - improved/increased contractor staff training:
 - simplification of information on benefit options and funding;
 - better internal communications (both DND and the contractor);
 - timeliness of the information package, appointments, notices and increased contractor staff during APS;
 - a better understanding of military culture by the contractor's staff;
 - increased integration of problem resolution and all aspects of the move; and
 - changes to contractor's facilities to allow for more privacy and avoid interruptions during meetings.

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- 22. The participants also identified the following as particular program strengths:
 - the contractor's staff work hard to make the program work;
 - the flexibility in benefit choices makes CF members feel that they are in control of the move;
 - spouses are able to participate which can take weight off the military member and family members are empowered in the move process; and
 - having the option of daycare during the HHT or of bringing their children with them.
- 23. The only issue raised concerning benefits offered under IRPP was the perceived need to increase consideration for the entire family. Proposed solutions focused on increasing benefits to address the financial and social impact of relocating families e.g., reimburse spousal re-employment expenses, consider common law spouses, provide DND day-care in large centres.
- 24. Since the start of the program, the contractor has asked members to complete surveys after their moves. The results of the review interviews and focus session were roughly equivalent to those of the contractor's satisfaction surveys, with most ratings in the 50-60 per cent satisfaction range. It should be noted, however, that the lines of inquiry were not the same, as the contractor's survey had a more limited focus, dealing only with satisfaction with client service and information provided.

PROGRAM MANAGEMENT PROCESSES

25. To assess program management, KPMG analyzed four components: the cost of actual benefits used; the customized funding component of IRPP; the cost and administration of third party suppliers; and the reasonableness of administration fees charged by the contractor.

Cost of Benefits

- 26. A comparison of FY 1997-98 pre-IRPP moves to those of FY 2000-01 indicated the cost of benefits in the post-IRPP sample was 54 per cent or \$39M higher than in the pre-IRPP sample. Based on data collected, the average cost per move for FY 1997-98 and FY 2000-01 were \$7,159 and \$11,056 respectively. A portion of this increase was anticipated by DND prior to implementation of the program.
- 27. There were three reasons for this cost escalation, each accounting for approximately one-third of the \$39M increase. They were:
 - **New Benefits**: offered under the IRPP. These are mainly financial incentives offered as customized benefits.

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- Changes in the Cost of Previously Offered Benefits: (rather than increases in demand for those benefits). While much of this change was attributable to IRPP, some benefits which were not consistent with those offered in the market (e.g., kilometric rate for travel) were increased prior to the IRPP. These cost increases were considered "necessary" to ensure transferees received fair reimbursement of their move costs. The cost of interim lodgings, meals and incidentals increased by over 85 per cent or \$10M per year for 10,000 moves.
- An Increase in the Demand for Certain Benefits: A portion of this increase in demand was the result of changes in the needs/characteristics of transferees and not attributable to the new program. For example, of the \$11.4M attributable to changes in usage/demand, \$6.4M represents an increased demand for real estate commissions and is not considered to be attributable to the IRPP. However, the IRPP did introduce changes to certain benefits that increased transferees' tendency to use those benefits. A good example of this is that the cost of Home Equity Assistance increased 83 per cent or \$5M per year; probably the result of the removal of the requirement for a minimum market decline before entitlement was allowed.
- 28. It is also interesting that the cost of mortgage default insurance decreased by \$3.2M per year. The change in usage would appear to be the result of this benefit being changed from a basic to a customized benefit under IRPP. According to DCBA, this change is one of the major sources of complaint from transferees.
- 29. The majority of customized fund spending appears to be by homeowners for Mortgage Interest Buydown and to support lost equity on the sale of their home (through Home Equity Assistance and Capital Improvements). In regards to the Mortgage Interest Buydown Benefit, it appears that members have the option of applying unused Enhanced Core Funding (which could otherwise be lost to them) as well as their Customized Funding Envelope to buydown their mortgage interest rate at their place of destination. This benefit is in addition to any interest rate differential benefit that they might be entitled to, or whether they had even owned a home at their place of origin. As the Mortgage Interest Buydown does not appear to represent an actual move cost to military members, it seems to be inequitable to allow transferees to apply unused funds from their Enhanced Core Funding Envelope in this manner. Based on the review sample, in excess of \$2.5M of Enhanced Core Funding Envelope Funds would be applied to the Mortgage Interest Buydown Benefit in a 10,000-member move year.
- 30. The contractor advised KPMG that benefit costs with respect to the \$25,000 Interest-Free Home Relocation Loan are recorded in the same general ledger account as Mortgage Interest Buydown. The findings on the Mortgage Interest Buydown Benefit covered above are equally applicable to this benefit, as the benefit is not considered an actual move cost. As well, the costs with respect to these benefits should be recorded in separate accounts to ensure accurate cost gathering. These benefits are linked to Canada Custom and Revenue Agency (CCRA) rules and regulations. Assessing the financial impact of CCRA rule and regulation changes on benefit costs could be difficult with these benefits recorded in the same account

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Financial Incentives

- 31. Approximately \$8.5M of the \$25.0M net cost of customized benefits is provided by way of financial incentives offered through IRPP. As financial savings associated with certain of these incentives were not evident in the review, there is a concern as to whether they truly resulted in a net benefit to DND. In particular, the incentives of questionable value were:
 - \$1,000 to those who rent at destination; and
 - 80 per cent of the cost savings associated with the shipment of household goods below 1,000 lbs. per "qualifying room".
- 32. Certain of these financial incentives appear to be attempting to encourage behaviour that would likely have occurred regardless of any incentive being offered. For example, the \$1,000 incentive given to those who rent instead of buy a home at destination, was to reduce the cost of future move expenses related to home sales and purchases. Based on an analysis of a 10,000-member move year, the cost of this incentive is in excess of \$5.0M. However according to a sample of pre and post IRPP moves, the percentage of CF members who rented in FY 1997-98 was consistent with that of FY 2000-01. As the incentive is given to all those who rent, it is not evident that this incentive would result in a net saving to the Department as the percentage of military members opting to rent has not increased.
- The IRPP offers transferees 80 per cent of the cost savings associated with the shipment 33. of household goods below 1,000 lbs. per "qualifying room". Based on a 10,000-member move year, the cost of this financial incentive is almost \$1.6M. The purpose of this incentive is to reduce the cost of shipping furniture and effects, by enticing members to dispose of possessions of little or no value rather than move them at public expense. KPMG met with staff from the Directorate of Logistics Business Management (DLBM), which is responsible for the movement of furniture and effects, to inquire as to whether they had maintained records on average weight per room shipments prior to the IRPP or on trends on member moves cost. Although they did not have information on qualifying room weights prior to the IRPP, they indicated that the cost of moving furniture and effects had increased significantly in recent years. They indicated that the shipping cost per pound had not increased, suggesting members were in fact moving more than they had in the past. Considering this information, there is no evidence that this financial incentive is having the desired impact, or that the 1,000 lbs. per room is an appropriate measure. DCBA was not aware of DND having been asked to assist in the identification of this figure. It should be noted that any savings that could result from this financial incentive would not be evident in the IRPP data, as the shipment of furniture and effects is not covered in the IRPP.
- 34. Two financial incentives which do appear to generate a net saving to DND are:
 - The \$250 offered in relation to House Hunting Trips (HHTs). The incentive is given if members either stay over a Saturday night when flying or reduce the number of days they spend on their HHT. Savings accrue as flights are generally much less expensive when not taken on Saturday.

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• The incentive for members not selling their home. By paying the incentive, which averages approximately \$5,952, the Crown avoids further liability for reimbursement of the real estate commission, legal fees as well as potential Mortgage Termination Penalties, Temporary Dual Residency Allowance and Home Equity Assistance. This particular incentive provides as much as a 6 to 1 investment return for the Crown and has significant positive impact beyond the incentive to the Member.

Third Party Suppliers

- 35. The contractor has developed an IRP Directory of Participating Suppliers with respect to each of the service areas offered: real estate commissions; legal fees and disbursements; appraisal fees; building inspections; rental search fees; and property management commissions. Suppliers are pre-screened to ensure they have the necessary accreditations and experience. Suppliers must agree to provide their services at a price no higher than the established ceiling prices. The contractor's process for identifying qualified service providers appears appropriate and in the best interest of CF members. It also seems equitable to service providers and ensures that CF members obtain appropriate service quality.
- 36. It is not evident however that third party supplier services are being provided at the most cost-effective rates. There is no competitive process in place for suppliers in terms of bidding for work and there is no incentive for suppliers to provide services below the ceiling rates defined by the contractor. For example, the review indicated that:
 - 88 per cent of all appraisals completed for Ontario homeowners were charged at the ceiling rate;
 - rates charged for legal fees were 8 to 18 per cent higher (except in the Atlantic Region) in the IRPP contract than average legal fee rates for a purchase of a home regionally across Canada; and
 - the ceiling rate for real estate commissions in the IRPP contract for the Central region is six per cent in comparison to the five per cent generally available to the public in Ontario.
- 37. Certain provincially legislated changes in PEI and NB resulted in an increased level of legal service to complete the purchase of a property. The contractor received authorization to compensate lawyers in these provinces for the additional service requirements. However, the increase has been structured as a disbursement that did not affect the legal fee ceiling rate. Considering that these are in fact legal fees, the ceiling price should be adjusted rather than identifying these costs as disbursements.

Service Delivery Costs

38. To assess the reasonableness of the administration fee charged by the contractor, the current cost was compared to that which DND would incur if it were to administer relocation services in-house.

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- 39. Given the lack of a pre-implementation business case analysis and information on pre-IRPP staffing levels, the review of service delivery cost changes was limited. However, the review indicated that the current cost of service delivery through the contractor was between \$7.6M and \$8.5M higher than the estimated cost of DND relocation administration pre-IRPP. It must be noted that these cost estimates are not fully comparable. While the current contractor service delivery cost includes all costs of service delivery, such as training, hardware, software, IT and accounting support; the cost estimates prepared for DND were based solely on the cost of personnel.
- 40. A number of other factors besides personnel costs must be considered in order to properly assess the cost of operating the IRPP in-house. These include:
 - the requirement for an IRPP information system/database which was developed and is currently operated by the contractor which provides more reliable and detailed information on member moves and a higher level of quality control than existed prior to the IRPP;
 - provision of start-up and annual training on the complex IRPP; and
 - if military staff were used to deliver the program; regular posting would make it difficult for DND to retain the knowledge acquired with respect to the program and its benefits. This problem could be alleviated by using civilian rather than military personnel.
- 41. Further analysis would be required to assess DND's ability to assume administration of the IRPP and to ensure the same level of member satisfaction and information management currently provided. Ultimately, the balancing of costs and qualitative issues can only be properly considered once clear program objectives have been established.

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FINANCIAL AND CONTRACTUAL PRACTICES AND CONTROL

FINANCIAL CONTROLS

- 42. The review observed that the financial control practices were inadequate. No review is currently being completed by DND to ensure that:
 - only move expenses authorized under the policy are disbursed;
 - there is appropriate supporting documentation with respect to the payments issued to members and third party suppliers by the contractor; or
 - the amounts recorded in the contractor's database with respect to each move are appropriate and correct.
- 43. DCBA conducts a review of each electronic move file prior to file closure, however, this review focuses only on irregularities in terms of payment amounts and cost allocations. There is currently no review to ensure goods or services have in fact been received; nor are transferees' actual move files containing claim forms and third party invoices reviewed. However, DCBA has now developed a review process based on information in the contractor's database and is attempting to further computerize these review processes. More efforts are needed to ensure validity of payments made by the contractor. Options available to rectify the problem include either obtaining more human resources or finding alternative ways of applying the necessary financial controls.

CONTRACTING PRACTICES

- 44. A number of variances from the terms of the contract were noted. For example, although the contractor's bid submission indicated there would be no fees charged for cancelled files, administration fees were paid with respect to cancelled move files. As well some fee increases were paid prior to the approval of the applicable contract amendment.
- 45. Certain invoicing practices did not follow the terms and conditions of the contract. For example, although the contract provided for an initial advance of \$2,000 per member move, payable to the contractor, the contractor was provided first with \$15,000 (which was later reduced to \$10,000) per move file. This approach was adopted to ensure that the contractor was not in a negative cash position with respect to expenses incurred on behalf of members and to avoid interest charges. As well, the contractor was not providing DCBA with information on the balance of funds held in trust by the contractor or the net position of any member's account.
- 46. To address this situation, DCBA intends to establish a zero balance account which will allow the contractor to write cheques directly off the account. The cheque amounts paid out would be reimbursed daily by the Receiver General. Such a change would be very positive cash management initiative as it would resolve the advance billing requirement and interest issue.

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CONCLUDING COMMENTS

- 47. Overall, the IRPP appears to provide transferees with a comprehensive and flexible offering of relocation services. The program design is contemporary and supports the corporate Quality of Life Philosophy of the Department by addressing many of the family related issues raised in the SCONDVA report.
- 48. The cost of benefits and service delivery have increased under IRPP. There appear to be several areas where program costs could be cut with a minimum impact on transferee satisfaction. Further analysis would be required before any specific conclusion could be reached regarding the financial impact or advantages/disadvantages to the current practice of outsourcing the program administration. A business case analysis that considers both cost and qualitative aspects in conjunction with overall program objectives should be performed before further decisions are taken on outsourcing.

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RECOMMENDATIONS AND MANAGEMENT ACTION PLAN

49. The following is a summary of recommendations listed in order of the priority. Each recommendation is followed by the associated ADM(HR-Mil) management responses and action plans:

Recommendation 1

DCBA must strengthen the audit and control practices related to payment verification and establish a suitable control framework, based on a risk management approach. A sound statistical sampling methodology could be used to ensure confidence that program payments and move information are accurate and appropriate.

Management Response: DCBA supports a risk management approach be adopted.

Action Plan: DCBA proposes the following "three-prong" approach:

- a. DCBA has established an audit cell and will develop an internal audit plan that identifies specific files for further review based on electronic queries. This will closely approximate "real time" verification of files as they are input into the database by the contractor. Queries are able to identify certain financial errors or discrepancies in the application of the IRPP Policy. As trends are identified, DCBA advises the contractor so they can build in front-end checks that verify information on their systems as data is input.
- b. An "expense statement" will be generated and forwarded to each transferee for review. This would employ the transferees in an "audit" role. As it is still in the early stages of development, the final format of the statement is still being developed. It is unclear at this time who will prepare the expense statement.
- c. Rather than approach verification on a line by line basis, verification will be based on the dollar value of the expenditure. It is anticipated that this approach will provide a cost/resource effective process for minimizing risk. Furthermore, the establishment of a zero balance bank account will provide a better mechanism to monitor program expenses than the current system of advancing funds to the contractor.

Recommendation 2

Invoicing practices should be tightened by formalizing when and if administration fees should be charged on cancelled moved files. DND could consider strict adherence to the contract, which provides no fee for cancelled files. However, a detailed review of the Request for Proposal should be completed before any position is adopted to clarify the information DND was provided with at the time they submitted their bid and pricing strategy.

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Management Response: The observation that DND is not adhering strictly to the IRP contract is valid. Co-ordination with the central agency program and contract authorities is required to determine responsibilities for action when reviewing the Request for Proposal. The definition of cancelled file must be clarified as well as who is responsible to cancel files.

Action Plan: DCBA will review its procedures related to cancelled files in consultation with the contract authority.

Recommendation 3

Consider program changes to reduce benefit costs that have the least impact on transferee satisfaction and/or that aren't appropriate and incentives that do not result in cost savings. The most obvious areas requiring analysis are:

- a. rental incentives and shipping thresholds for the shipment of household goods and effects which are not yielding net cost savings;
- b. use of the enhanced core funding envelope to fund the Mortgage Interest Buydown and interest free loans; and
- c. consistency of third-party supplier rates with those of market. Alternatives might be to re-establish ceiling rates every six months to ensure they are competitive or use regional standing offers for services to create a competitive process for suppliers.

Management Response: Program changes should be based on the program's objectives. It is agreed that some benefits have little impact on member satisfaction, however, further study is necessary to determine if a proposed change meets the objectives. Changes that do not reduce benefits to the member are the higher priority.

- a. It was observed that providing a monetary incentive for personnel to rent at destination did not significantly increase the number of personnel that rented at destination. The conclusion was that the rent incentive was not cost effective. The program objectives must be more fully developed before comment can be provided on this issue. While it is generally agreed that benefits should lead to desired objectives, further study is required before a proposal to change this benefit can be forwarded for consideration.
- b. DCBA agrees with the observation. Funding the Mortgage Interest Buydown from Enhanced Core appears to encourage the maximum use of this envelope and creates a perceived inequity favouring homeowners. It must be recognized, however, that encouraging and facilitating home ownership has been a QOL objective arising from the SCONDVA report.

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c. DCBA agrees that it would be more cost effective to ensure that the most competitive rates are obtained from third party suppliers but does not agree that rates should be re-established. The capping of rates for third party suppliers appears to encourage the suppliers to charge the maximum rate and a difficulty arises with the appearance of price fixing. DCBA believes that there are more effective ways of achieving this objective, however, they must undertake such changes in collaboration with the program and contract authorities.

Action Plan: DCBA, in consultation with ADM(HR-Mil) and the Public Service program authority, will propose changes to improve the IRPP from both a cost-benefit and member-satisfaction point of view. Discussion with the central agencies will start in the Fall of 2001 to determine what needs to be done in order to have a new program in place for 1 April 2003.

- a. the rent incentive will be evaluated as to appropriateness and cost effectiveness based on program objectives. The results of this evaluation will be forwarded to the appropriate office for consideration;
- b. the Mortgage Interest Buy down will be evaluated as to appropriateness and cost effectiveness based on program objectives; and
- c. third-party rate caps are part of the program and changes to the contract would require central agency assistance. The possibility of regional standing offers will be further examined.

Recommendation 4

Establish program objectives for IRPP to monitor program success. Transferee satisfaction should be assessed against the additional cost of the program.

Management Response: Although formal program objectives were not established for the IRPP, five underlying principles were identified to the AFC before agreeing to go ahead with the IRPP however they were not well communicated. These principles were to:

- address QOL family care and relocation issues;
- increase flexibility with minimal incremental cost;
- use industry expertise to deliver relocation services;
- provide "one-stop shopping" as far as possible given that the HG&E Contract had just been let for domestic relocation services; and
- accurately estimate the total cost of each move in advance of the relocation.

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To measure success, these objectives would need to be restated. Such objectives could be "to obtain the best value for money when relocating CF personnel" and "to maximize the occurrence of door-to-door moves".

Action Plan: Revised program objectives based on the current vision of the program will be developed. Since the IRPP is but one component of CF Human Resource Policies, these objectives will be tied to ADM(HR-Mil) objectives. Once established, these objectives will be clearly published as part of general information on the program.

Recommendation 5

Make CF members more aware of the attributes of the program and the fact that the program is complete and contemporary when measured against those of other large organizations with similar relocation requirements. In particular, CF members should be aware that benefits under the IRPP have been enhanced, and that the program offers transferees the flexibility to customize benefits to meet their needs.

Management Response: It is agreed that an effective communication plan would assist in making members more aware of the attributes of the program and its benefits. IRPP is a "good news" story and provides CF members with significantly improved benefits. As in the past, the communication plan concentrated on announcing the program and changes to benefits and not on promoting the competitiveness and "goodness" of the program. While this method was effective in informing most CF personnel of the introduction of the program and it's underlying policy, it did not focus on its virtues

Action Plan:

- a. To improve awareness of the contemporary and competitive nature of the IRPP, articles with an appropriate focus will be published in the CF Newsletter as well as the Maple Leaf with a view to promote the IRPP as a program consistent with an "employer of choice". Quotes from the CRS/KPMG report will be used to highlight the independent assessment of the merits of this program.
- b. To ensure that FAA Section 34 requirements are maintained, DCBA will send each member a summary of their relocation expenses in the of an "expense statement". As it pertains to awareness, this statement will provide transferees with a single document detailing the cost of their relocation. It is believed that if the cost of the relocation is summarized, the transferee will have a better appreciation of the cost of relocation to the Department and as a result, better appreciate the benefit of the IRPP. As this statement is still in the early stages of development, it is expected that it will not be in place until APS 2002.

In the Management Response, DGCB remarked that the review had proven to be valuable in that it evaluated some of the strengths and weaknesses of the IRPP. As such, it provides a mechanism to drive improvements to the program administration and to the program benefits. They recommended that a similar audit be conducted each year in order to determine whether the

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IRPP is meeting the program objectives; to determine contractor compliance (similar to that conducted by Consulting and Audit Canada on behalf of TBS); and to determine trends that may indicate required changes to the program.

CRS Response: Given the limited CRS staff available to conduct department-wide internal audits and evaluations of all DND programs and administrative functions, annual CRS audits of the IRPP will not be possible. Instead, as identified in Recommendation 4, priority should be given to establishing clear, measurable objectives for the IRPP as soon as possible. This will allow ADM(HR-Mil) to regularly monitor program success and internally highlight problem areas, trends and value-for-money assessments that could lead to the development of business cases to make program improvements.

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