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MILITARY PAY AUDIT – BASIC PAY

October 2003

7050-8-2 (CRS)



Canada 

SYNOPSIS

This report presents the results of an independent audit of the payment of salaries and wages to Regular Force (Reg F) and Class C Reserve Force (RF) members, for calendar year 2001. Based on substantial audit testing, we have concluded that, overall, payments were made in an accurate and timely manner. Implementation of the CCPS/Re, has reduced the risks of error through additional automation of processes.

Notwithstanding the overall positive results of this assurance work, certain anomalies warrant attention.

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..... Adding to the risk of is that many individuals responsible for supervising the delivery of pay, do not have sufficient pay-related experience to effectively perform their duties. The audit also found a lack of clear policy to support the timing of pay increments for non-commissioned members (NCMs) voluntarily transferring to specialty trades. This raises questions regarding the rationale for, and consistency in application of, related compensation practices.

Attendant to this audit is a recommendation that serious, and timely, consideration be given to the productivity benefits of further consolidation of pay service delivery. We have noted that other organizations have taken good advantage of shared service strategies.

The key recommendations of this audit are targeted at improved control and productivity. They are as follows:

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- *Develop a coordinated training strategy for those supervising the delivery of pay services;*
- *.....*
- *Implement measures to ensure NCMs do not receive pay rates of specialty trades until they become trade-qualified, or otherwise ensure clear policy as well as consistency of practice;*
- *Provide Resource Management Support (RMS) Clerks and management with adequate training regarding access to, and use of, reports available through the Report Management Distribution System (RDMS);*
- *Develop and monitor performance indicators for pay services; and*
- *Pursue further productivity measures for the delivery of pay services – particularly exploiting technology and service consolidation opportunities.*

Management action plans provided by ADM(Fin CS) and ADM(HR-Mil) demonstrate constructive attention to the majority of recommendations contained in this report. At the same time, we encourage that certain actions be set in motion earlier than currently planned. In this respect, CRS will request interim, or more specific, milestones for a number of action plans. Recommendations and corresponding management action plans are presented in matrix format at Annex F of this report.



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RESULTS IN BRIEF

INTRODUCTION

Sound payroll management ensures that members of an organization are compensated in accordance with their terms of employment and that payroll-related information is correctly recorded in the payroll system. In many organizations, payroll is considered a low-risk area, because most transactions are routine in nature. However, in terms of materiality, the Department of National Defence (DND), spent \$3.2 billion in 2001 for salaries and wages of Regular Force (Reg F) and Reserve Force (RF) Class C members. This amount represents approximately 30 per cent of DND's entire annual expenditures. This fact, along with implementation—in September 1999—of a new version of the Central Computation Pay System (CCPS/Re) to calculate Reg F and RF Class C pay, has prompted an audit of Canadian Forces (CF) pay.

AUDIT OBJECTIVES, CRITERIA AND COVERAGE

This audit of military pay was conducted primarily to:

- determine whether payment of salaries and wages to Reg F and RF Class C members in 2001 was accurateⁱ and timelyⁱⁱ;
- assess payroll-management practices, including risk-management strategies, and the use of information for decision making;
- identify opportunities to improve the efficiency of military-pay delivery; and
- develop technology-driven analytical and diagnostic procedures that can identify anomalies or errors.

To assess these audit objectives, we developed assessment criteria targeted at risk-management strategies and practices, payroll-management practices and information used for decision-making. Detailed assessment criteria are shown in [Figure 1, Annex A](#). In addition, we developed assessment criteria to perform detailed audit tests on a random sample of various pay accounts to assess whether payments were made in accordance with the correct terms of employment as well as being within a reasonable timeframe. Assessment criteria for the random sample of pay accounts are shown in [Figure 2, Annex A](#).

ⁱ Accurate – members are paid what they are owed in exchange for the services rendered.

ⁱⁱ Timely – pay guides are updated within 30 days from the date the salary or benefit has been earned.



AUDIT CONCLUSION

We are able to reliably conclude that salaries and wages, in calendar year 2001, were paid in an accurate and timely manner. This is based on the results of detailed audit tests applied to a representative sample of the entire population of applicable pay transactions. In our view, a significant contributing factor to the positive result is the fact that most of the processes for delivering military pay have been automated since the implementation of the CCPS/Re.

Nevertheless, the audit did identify specific areas of concern warranting attention. Risk-based directed audit samples identified instances where payments were not in accordance with relevant terms of employment. More specifically, these related to members serving detentions, members voluntarily transferring occupations and members receiving performance pay.

AUDIT ASSURANCE STATEMENT

Payments of salaries and wages to Reg F and RF Class C members, in calendar year 2001, were accurate and timely. We noted certain specific anomalies requiring attention, but they are not statistically material relative to the total \$3.2 billion annual expenditures. Since the implementation of the CCPS/Re in September 1999, most processes for delivering military pay have been automated, which has reduced manual intervention and the risk of errors. We audited a random, yet representative, sample of the entire population of pay transactions. Consequently, the results of our audit tests allow us to draw conclusions for the entire CF.

RISK TO PAYROLL MANAGEMENT PRACTICES

While audit results confirmed that basic pay delivery is well controlled in most respects, room remains to improve and enhance current practices and procedures. If measures are not taken in the following areas, incorrect payments could occur and go unnoticed.

- **Capabilities of those responsible for delivering pay** – Certain people responsible for supervising the delivery of military pay, such as RMS (Resource Management Support) clerks in supervisory roles and PAOs (Public Accounting Officers), do not have sufficient pay-related experience to perform their duties effectively. For the first six months, they learn on the job and, in many instances, from their subordinates. This situation weakens the approval process, blurs the segregation of duties, and increases the risk of unidentified errors.
- **System-access violation** – System edits intended to control access The risk of inappropriate conduct since no clerk user profile allows him/her to initiate and approve the same transaction. Although no evidence was found of inappropriate transactions to the pay guides of pay clerks, particularly since many newly appointed clerks in supervisory roles lack experience in payroll and rely entirely on subordinates to understand the system in the first months in their new job.

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- **Occupation transfers** – Pay policies dictate that pay be determined by rank, occupation and incentive level. However, when a non-commissioned member (NCM) voluntarily transfers to a higher trade group (from standard to specialty for example), policies are unclear as to when the member should receive the rate of pay of the higher trade. Consequently, by comparing the effective date a member started receiving specialty pay to the effective start date of training recorded in HRMS, the audit found that policies were being applied inconsistently across the CF. Specifically, an examination of cases found that the pay rate for a higher trade group became effective at various points in the transfer process—prior to, at the beginning, or during the period the members were in training.

As we understand it, the intent of the policy is that members be paid at the higher rate upon completing the training requirements. However, in the vast majority of cases we examined, the higher rate of pay became effective when training began. For the period April 2002 to November 2002, we identified 152 such cases; prior to qualification these members had their pay increased by \$16 to \$348 per month. Some trades require a minimum of two years training. We are unable to determine the full financial implications of this situation as no mechanism is in place to determine the number of members in the process of becoming trade qualified at any given point-in-time. However, it is worthwhile to note that Director General Compensation and Benefits (DGCB) supports a change in policy that will clearly stipulate that speciality pay be awarded upon attainment of the necessary skills and knowledge. More specifically, DGCB stated that “the policy is being changed because the information system constraints that previously precluded payment of specialist pay at time of attainment of the necessary skills and knowledge have been overcome.”

USE OF INFORMATION FOR DECISION MAKING AND RISK MANAGEMENT PRACTICES

- **RMDS reports** – Numerous reports are available through the Report Management Distribution System (RMDS), a flexible reporting system that allows management to identify exceptional items. The audit found that many RMS clerks were either not aware of available reports or did not know how to access them. This hinders units’ capability to both identify errors and monitor areas of concern.

OPPORTUNITIES TO REALIZE SIGNIFICANT SAVINGS

A 1994 CRS report concluded that delivery of military pay services was inordinately costly due to the large number of decentralized pay offices that DND operates. Our audit confirmed that, notwithstanding improvements achieved, this situation substantially continues. Accordingly, there remain opportunities to improve the productivity of the payroll process. The experiences of other organizations, including the US Military, offer worthwhile insights in this respect.



KEY RECOMMENDATIONS

A summary of all recommendations resulting from this audit is provided in [Annex B](#). Five key recommendations are listed below.

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1. Develop a co-ordinated training strategy for all new PAOs and RMS clerks – ADM(Fin CS).
2.
ADM(Fin CS).
3. Implement measures to ensure NCMs become trade qualified before they receive rates of pay for the new trade – or otherwise clarify policy and ensure that consistency of application – ADM(HR-Mil).
4. Provide RMS clerks and management with adequate training on accessing and maximizing the benefits of RMDS reports. DGAPPP could provide clear guidance to payroll staff on the availability and use of reports in the monitoring and review processes – ADM(Fin CS).
5. Identify indicators and monitor performance of pay service delivery – ADM(Fin CS).
6. Pursue progressive consolidation of the delivery of pay services at the local, regional or headquarters level – (ADM(Fin CS)).



BACKGROUND

AUDIT OBJECTIVES

The main objectives of this audit are summarized in Illustration I.

AUDIT SCOPE

The audit examined payroll-management systems and practices used to deliver \$3.2 billion in salaries and wages to 59,000 Reg F and RF Class C members in 2001.

AUDIT METHODOLOGY

The findings of the audit are based on the following methodologies:

- gaining an in-depth understanding of current payroll-management processes by:
 - o observing pay-related activities performed by RMS clerks on a daily basis, and
 - o conducting interviews with personnel involved in delivering pay and key personnel responsible for relevant pay-related policies, such as DPPD;
- reviewing payroll processes to identify risks;
- developing detailed audit criteria and procedures in accordance with Treasury Board guidelines (see [Annex A](#) for details);
- visiting 11 sites representing a cross-section of the three Environments;
- randomly selecting a representative sample of 350 member pay accounts and conducting tests to ensure that transactions were properly processed and fully documented; and
- performing directed sampling in areas that are believed to have a relatively high probability of error.

Determine if payments of salaries and wages to Reg F and RF Class C members in 2001 were accurate and timely	Assess payroll-management practices, including risk-management strategies and the use of information for decision making
Identify opportunities to improve the efficiency of military pay delivery	Develop technology-driven analytical and diagnostic procedures that can identify anomalies or errors

Illustration I

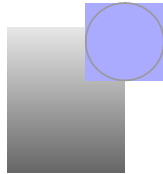


For greater detail on the audit’s methodology, see [Annex C](#). For areas identified as high risk, transactions were chosen using a directed sampling approach. A summary of the objectives and findings of the directed sampling processes used during the audit are provided in [Annex E](#).



DETAILED FINDINGS AND RECOMMENDATIONS

AUDIT ASSURANCE



Payments of salaries and wages to Reg F and RF Class C members in 2001 were made in a timely manner in accordance with established policies and terms of employment.

We selected a sample of 350 members at random, which is a representative sample of the entire CF, and audited each of these member's pay guides for calendar year 2001. Our sampling technique allows us to draw conclusions for the entire CF. Results of the audit tests from the random sample found no material evidence that would lead us to believe that payments were not made both in accordance with the relevant terms of employment and in a timely manner. For greater detail on the audit's sampling methodology and results, see [Annex D](#).

Pay delivery was timely and accurate – key factors:

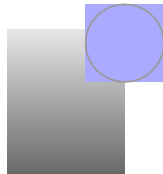
- Most processes used to calculate entitlements are automated;
- Transactions entered in CCPS/Re are subject to a series of edits; transactions that fail the edit process are rejected;
- Logical access controls, relying on user identification and passwords, are in place;
- The system does not allow the same user-id to initiate and approve the same transaction; and
- Procedures are employed—both locally and centrally—to identify and follow-up on problem accounts.

Some areas of concern:

Additional audit tests were performed on numerous directed samples for areas we perceived as high risk (see [Annex E](#)). Results from our directed samples identified instances where payments made were not in accordance with the relevant terms of employment. Specifically, these instances relate to members serving detentions, members voluntarily transferring occupation or members in receipt of performance pay. These instances are discussed in detail in the following sections of the report.



ASSESSMENT OF CURRENT PAYROLL-MANAGEMENT PRACTICES



Although the payments of salaries and wages for calendar year 2001 were made in an accurate and timely manner, many individuals responsible for supervising the delivery of military pay do not have sufficient knowledge or experience required to perform their duties effectively. This has resulted in a few inconsistent practices, such as when a member must serve a punishment of detention or when determining if members are entitled to performance pay. In addition, the structure of the CCPS/Re does not facilitate the application of the policy that governs voluntary occupation transfers.

1. Capabilities of personnel responsible for delivering pay

Issue:

Many personnel responsible for supervising the delivery of military pay, such as RMS clerks in supervisory roles and PAOs, do not have sufficient knowledge or experience required to perform their duties effectively. Many of these personnel indicated that the pay-related training they had received did not prepare them adequately. Essentially, on-the-job training (OJT) is the only form of training they receive.

Causes and Impacts:

- RMS clerks with limited payroll experience are often placed in supervisory roles. For the first six months, these clerks learn on the job and, in many instances, from their subordinates. This situation weakens the approval process, blurs the segregation of duties, and increases the risk of errors going unnoticed.
- Due to insufficient training and a lack of experience, PAOs from at least two locations and numerous RMS clerks did not understand their responsibilities, including what they were approving, and did not fully comprehend what tasks were required of them during the first six months in their new jobs.

- OJT by itself is insufficient to adequately prepare newly-appointed payroll supervisors.



RECOMMENDATIONS

OPI	ACTIONS
ADM (Fin CS)	<ul style="list-style-type: none"> • Institute a longer hand-over period and develop a coordinated training strategy to ensure that PAOs and payroll-supervisors have a greater understanding of both their new responsibilities and the importance of the approval process.
ADM (Fin CS)	<ul style="list-style-type: none"> • Develop procedural guidelines to ensure that PAOs and payroll-supervisors are made aware of acceptable practices, and to make certain that unacceptable practices are not perpetuated through OJT.



2. Occupation transfer

Issue:

The policy that governs occupation transfers for non-commissioned members (NCMs) who voluntarily occupation transfer (VOT) to a higher trade group is unclear and was not consistently applied. Specifically, an examination of cases found that the pay rate for the higher trade became effective at various points in the transfer process – prior to, at the beginning or during the period the members were in training. Unlike officers (i.e., Medical/Dental, Legal, Pilots) who must be occupationally qualified to receive specialist rates of pay, the vast majority of NCMs who VOT to a higher trade start receiving specialty pay prior to being trade qualified.

Causes and Impacts:

- CCPS/Re is structured such that the combination of rank, military occupation code (MOC) and incentive level determines rate of pay. When NCMs VOT to a higher trade, they must revert to the rank of Corporal. As soon as the MOC is changed in the CCPS/Re, a member immediately starts to receive the new rate of pay even though he or she may not be trade qualified.
- To allow career managers (CM) to monitor human resources (HR) information regarding the gain and loss to MOCs, a NCMs MOC is changed to that of the new trade at the start of training. Except for some Sergeants, this results in some NCMs receiving specialty rates of pay prior to being trade qualified. In certain instances it can take two years to be trade qualified.
- Prior to April 2002, NCMs maintained their incentive levels on VOTs, resulting in significant pay increases. Effective April 2002, interim measures were put in place to minimize the amount of the increases. Members can no longer maintain their incentive levels. Their pay is established at the rates nearest to, but not less than, their immediate prior rates.
- By comparing the effective date members started to receive specialty pay, to the effective start date of training recorded in HRMS for the eight month period April 2002 to November 2002, we identified 152 NCMs who VOT'd to a higher trade—all of whom received the rate of pay of the new trade (i.e., specialty pay) prior to becoming trade qualified. It is important to note that information on the number of members in the process of becoming trade qualified is not available.
- The audit found that of the 152 members, 25 members retained the incentive level of their former rank. In the absence of being trade qualified, pay increases for those 25 members ranged from \$143 – \$348 per month. For the remaining 127 members pay increases ranged from \$16 – \$283 per month. It is evident that by retaining their incentive level, the pay increase is quite significant. As mentioned above, effective April 2002, incentive retention is no longer permitted on VOT's.



Causes and Impacts (continued):

- The cumulative monthly effect of paying those 152 members specialty rates of pay prior to being trade qualified is nearly \$20,000. This equates to an average monthly pay increase of \$131 per member (152 members over an eight-month period represents an average of 19 members per month). If we assume this as a constant rate, it is reasonable to assume that an average of 228 members VOT to a specialty trade on a yearly basis. Depending on the trade it can take anywhere from 6 months to 3 years to become trade qualified. If we assume that the average period for becoming trade qualified is one year, it would be fair to conclude that an average of 228 members are in the process of becoming trade qualified at any given point in time. Accordingly, if those 228 members are receiving an average pay increase of \$131/month prior to being trade qualified for a one year period, the annual incremental cost to the department of paying members specialty rates prior to being trade qualified could be as much as \$360,000.
- To rectify the situation, the MOSART project team is developing measures that will enable career managers to clearly monitor relevant HR information and ensure that rates of pay become effective only when members become trade qualified.



RECOMMENDATION

OPI	ACTION
ADM(HR-Mil)	Implement measures to ensure NCMs are trade qualified before receiving rate of pay of new trade or otherwise take steps to achieve harmony between clear policy and consistency of application.

3. Detention

Issue:

- Policy stipulates that when a punishment of detention is imposed by a service tribunal on a NCM above the rank of Private, forfeiture shall be imposed for the duration of the period of detention. The forfeiture shall be equal to the difference between the pay for a private, incentive-level 3, and the pay a member would otherwise be entitled to.
- Forty-eight cases of detention were recorded in calendar years 2001 and 2002. Of the 32 cases we analyzed, 11 were above the rank of Private. We found that five of the 11 did not have forfeitures imposed. Had a forfeiture been imposed, \$1,300 in total would have been withheld from those five members.

Causes and Impacts:

- Several RMS clerks indicated that they were not familiar with the steps required to administer a detention in accordance with the relevant policy. As a result, five members were overpaid during their detention periods.
- The financial risk for DND is low, because there are few detentions for members above the rank of private. To maintain the integrity and credibility of the disciplinary system, however, it is important that punishments be respected.



RECOMMENDATION

OPI	ACTION
DHRIM	Since administering detentions is not a frequent practice, place electronic notes on a “member’s conduct sheet” in HRMS to remind RMS clerks to impose forfeitures.

4. Performance pay

Issue:

- The Treasury Board Salary Administration Instructions for the Performance Management Program for the Executive Group stipulates that an executive is not entitled to at-risk lump-sum payment (performance pay) for time spent on paid education or language-training leave¹.
- The Instructions include an exception that, when only part of a performance cycle is spent on education/language training, an executive is entitled to performance pay if the executive will be working for a sufficient period of time during the performance cycle.
- For performance cycle 2001/2002, the audit found that two members on education/language-training leave for the entire performance cycle, and 11 members on leave for a period greater than six months during the performance cycle, received performance pay.

Causes and Impacts:

- Director of Senior Appointments (DSA), who is responsible for administering the policy, does not take into consideration members on education/language-training leave, because no leave pass is submitted. As such, DSA’s opinion is that these members are entitled to performance pay.
- Concern exists that, if Treasury Board policy is strictly applied, members would be reluctant to attend language training, because they would not be entitled to performance pay.
- The policies are unclear and one reasonable interpretation is that some members would not be entitled to at-risk lump sum payment.



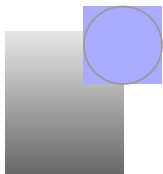
RECOMMENDATION

OPI	ACTION
ADM (HR-Mil)	Provide further clarification of Treasury Board policy and establish guidelines for what constitutes a “sufficient period of time.”

¹ Treasury Board of Canada Secretariat, *Salary Administration Instructions for the Performance Management Program for the Executive (Ex) Group*, April 1, 2001.



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A lack of segregation of duties compromises the approval process within the payroll function, which increases the risk of erroneous payments going unnoticed. For instance, all transactions entered directly into the CCPS/Re require an approval process;

1.

Issue:

All transactions entered directly into CCPS/Re require an approval process to ensure that no transactions can be processed completely by one individual.

Causes and Impacts:

Since numerous pay-related transactions are initiated from



RECOMMENDATION

OPI	ACTION
DHRIM that have an immediate impact on pay,

2. System-access violation

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Issues:

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- The Financial Administration Manual (FAM) requires PAOs to identify their staff’s pay accounts with sensitive notes and review those accounts at least once per quarter. The audit, however, identified at least two locations where pay accounts were not identified by sensitive notes. As a result, these accounts could not be identified for review.
- Smaller units may have only three individuals processing pay. When one or two of these people are absent, some RMS clerks share their user identifications and passwords to ensure transactions are processed in a timely manner.
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Causes and Impacts:

- The combination of RMS clerks’ pay accounts not being identified for review by PAOs, RMS clerks inexperienced in the payroll function placed in supervisory roles, Risk is as no single user profile can initiate and approve the same transaction.

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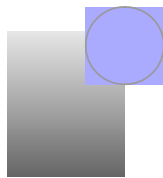


RECOMMENDATIONS

OPI	ACTIONS
ADM (Fin CS)	<ul style="list-style-type: none"> • for all RMS clerks who have CCPS/Re access. • •



ASSESSMENT OF THE USE OF INFORMATION FOR DECISION MAKING AND RISK MANAGEMENT PRACTICES



Pay-system information is not being utilized for decision-making and assessing pay-related risk. Formal performance measures are non-existent. Although the payroll system is capable of producing relevant reports to assist in decision-making and risk management, many RMS clerks either were not aware that reports were available or did not know how to access them.

Lack of performance measures and reporting

Issue:

- No formal performance targets and indicators are evident within the payroll function to measure operability, adequacy and effectiveness of the payroll process. Consequently, the performance of the CCPS/Re cannot be effectively monitored.
- RMDS is a flexible exception-reporting system that allows users to identify exceptional items and monitor areas of concern. The audit found that management and many RMS clerks either are not aware of RMDS reports or do not know how to access them.

Causes and Impacts:

- Without reports such as RMDS, management lacks adequate information to ensure resources are being applied appropriately and the productivity of the pay process is maximized. For example, such reports could allow management to monitor the productivity of a pay clerk or that of pay clerks at different locations. Best practices from locations where productivity is good can be applied at locations where productivity is lacking.
- CCPS/Re rejects many transactions initiated in HRMS. RMDS reports are able to compile all rejected transactions into one report. RMS clerks are not aware of this. Currently, RMS clerks feel they must review the reject log for each member’s HRMS account—a labour-intensive process. Increased awareness and use

- of RMDS reports would increase efficiency and provide better control over transaction rejects.
- RMS clerks at any location can request that DGAPPP produce reports that will allow them to monitor specific areas of concern. With such reports, exceptional items may be identified and acted upon in a timely manner.

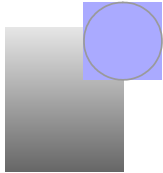


RECOMMENDATIONS

OPI	ACTIONS
ADM (Fin CS)	Establish formal performance targets and indicators (such as tolerance levels vs. error rates) to allow management to assess effectiveness and efficiency of the payroll process and monitor areas of concern.
ADM (Fin CS)	Provide RMS clerks and management with adequate training on utilizing and accessing RMDS reports to achieve maximum benefits of them.



OPPORTUNITIES TO REALIZE SIGNIFICANT SAVINGS



A 1994 CRS report concluded that military pay services were inordinately costly, because DND had a large number of decentralized pay offices. Notwithstanding improvements already achieved, this situation continues to substantially exist. As a result, the productivity of the payroll process is not being maximized.

Background

Although this military pay audit confirmed the delivery of military pay to be accurate and timely, it also recognized opportunities to realize important savings and to enhance segregation of duties. A 1994 CRS report found that military pay services were unnecessarily costly because DND had a large number of decentralized pay offices. The report indicated that, at \$31 per pay (\$755 per pay account per year), delivery of military pay was not cost-effective. A benchmarking study was conducted against a number of comparable organizations, such as the Canadian Broadcasting Corporation, New York Police Department and Canada Post. The study indicated that DND's cost per pay was almost double the average for private-sector organizations and nearly 15 times greater than organizations deemed to deliver pay services efficiently (i.e., world-class).

In 1998, at the request of DG Finance, CRS assisted DAPPP to prepare revised full-cost figures for Military Pay Services. The review provided current full-cost figures for military pay in comparison to 1994 full-cost. The review indicated that the cost per pay had been reduced from \$31 to \$21 (\$505 per pay account per year). This cost reduction was attributed to a fifty per cent reduction in personnel supporting pay and to system changes to the Defence Enterprise Server.

Current Environment

Although the cost per pay was significantly reduced (i.e., from \$31 to \$21), we believe that further savings can be achieved. Even though this current military pay audit did not calculate the cost of delivery of military pay services, it did confirm that DND continues to have a large number of decentralized pay offices (more than 70 Pay Office Numbers-PONs). As a result of numerous discussions with RMS personnel, PAOs and unit COs, and a review of best practices in comparable organizations, we have identified the following pros and cons of consolidating the pay function.

	Customer Service	Staff Competencies	Work Environment and Succession Planning
PROS	<ul style="list-style-type: none"> <input type="checkbox"/> Central pool of expertise <input type="checkbox"/> Enhanced competencies of payroll staff result in better service to members 	<ul style="list-style-type: none"> <input type="checkbox"/> Effective continuous learning environment <input type="checkbox"/> Reduced cost of training as OJT becomes a viable method of training 	<ul style="list-style-type: none"> <input type="checkbox"/> Better segregation of duties resulting in lower risk of error <input type="checkbox"/> Enhanced integrity of pay-system access control <input type="checkbox"/> Improved communication of key pay-related messages. <input type="checkbox"/> Increased consistency in policy application to complex transactions <input type="checkbox"/> Easier succession planning <input type="checkbox"/> Improved monitoring of career development for RMS clerks
CONS	<ul style="list-style-type: none"> <input type="checkbox"/> Lost personalized customer service <input type="checkbox"/> Less accessibility and proximity of pay services 		<ul style="list-style-type: none"> <input type="checkbox"/> Less independence in deployable units, because they would need to rely on others to supply a pay clerk <input type="checkbox"/> Lost cohesion within units, because members responsible for pay-related issues would no longer be an actual member of the unit

Benchmarking

Recent trends have both private and public sector organizations moving towards consolidating shared services. A survey of leading US companies concluded that 93 per cent have taken a shared services approach to payroll administration. In addition, a CRS report, dated February 2000, on Support Concepts, suggested that companies implementing shared services can realize cost savings of 30-50 per cent and efficiency gains of 15-45 per cent. The report also stipulates that the adopted a shared services approach to deal with human resource (HR) responsibilities. They moved from delivery involving several hundred HR employees to 75 specialists located at a call center to create a center of excellence which provides front-end HR advice to management. This shift in organizational structure has resulted in their HR function becoming much less expensive and more specialized.

To achieve economies of scale, the United States military reduced 338 offices to 26 over a six-year period, accommodating three business lines – military and civilian pay (that support 5.4 million individuals), accounting services and supplier payments. This reduction allowed for standardization of systems and procedures. To streamline the delivery of pay services, a web-based system was developed to allow members to view and make certain changes to their pay accounts. In addition, four helpdesks to handle pay-related enquiries and sixteen personnel offices responsible for processing transactions were set up across the US. Accordingly, customers no longer need to interact face to face with pay clerks and have apparently become accustomed to initiating some of their own pay transactions or calling a pay specialist. Customers also appreciate knowing exactly whom they need to call if a problem arises.

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In 2001, a payroll costing analysis of federal civilian-payroll service delivery in the United States measured annual operating costs of payroll services. The following table illustrates results from US departments that are somewhat comparable in size to DND.

Service Provider	Payees Served	Average Annual Cost Per Payee	
		(CAD)	(US)
Department of Transportation (DOT)	60,000	\$225	\$145
General Service Administration (GSA)	25,000	\$183	\$118
Health and Human Services (HHS)	125,000	\$149	\$ 96

In 1997, DND’s revised full-cost figure for the cost per pay account per year was C\$544 (updated from \$505 in 1997 dollars to 2001 dollars). This is three times more than the GSA and HHS and more than double that of the DOT.

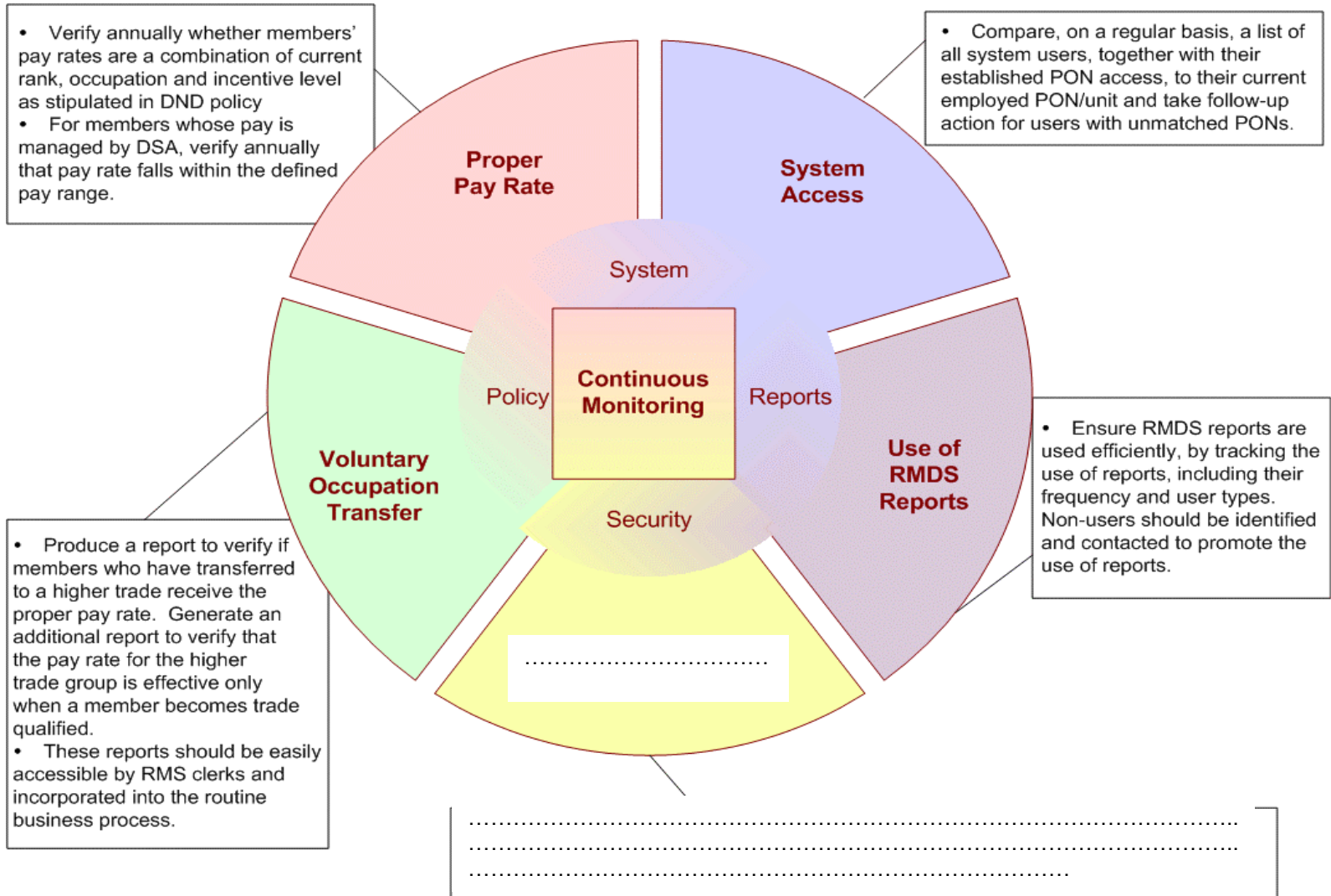
Recommendation

ADM(Fin CS) pursue productivity gains in pay services delivery – particularly taking advantage of progressive consolidation of pay services, exploitation of new technologies, and lessons learned as well as best practices from other organizations.

CONTINUOUS MONITORING



Continuous monitoring emphasizes technology-driven analytical and diagnostic procedures. Continuous monitoring allows management to identify anomalies and errors due to control failures. We recommend use of the reports listed below to allow management to monitor – on an ongoing basis – the accuracy of information.

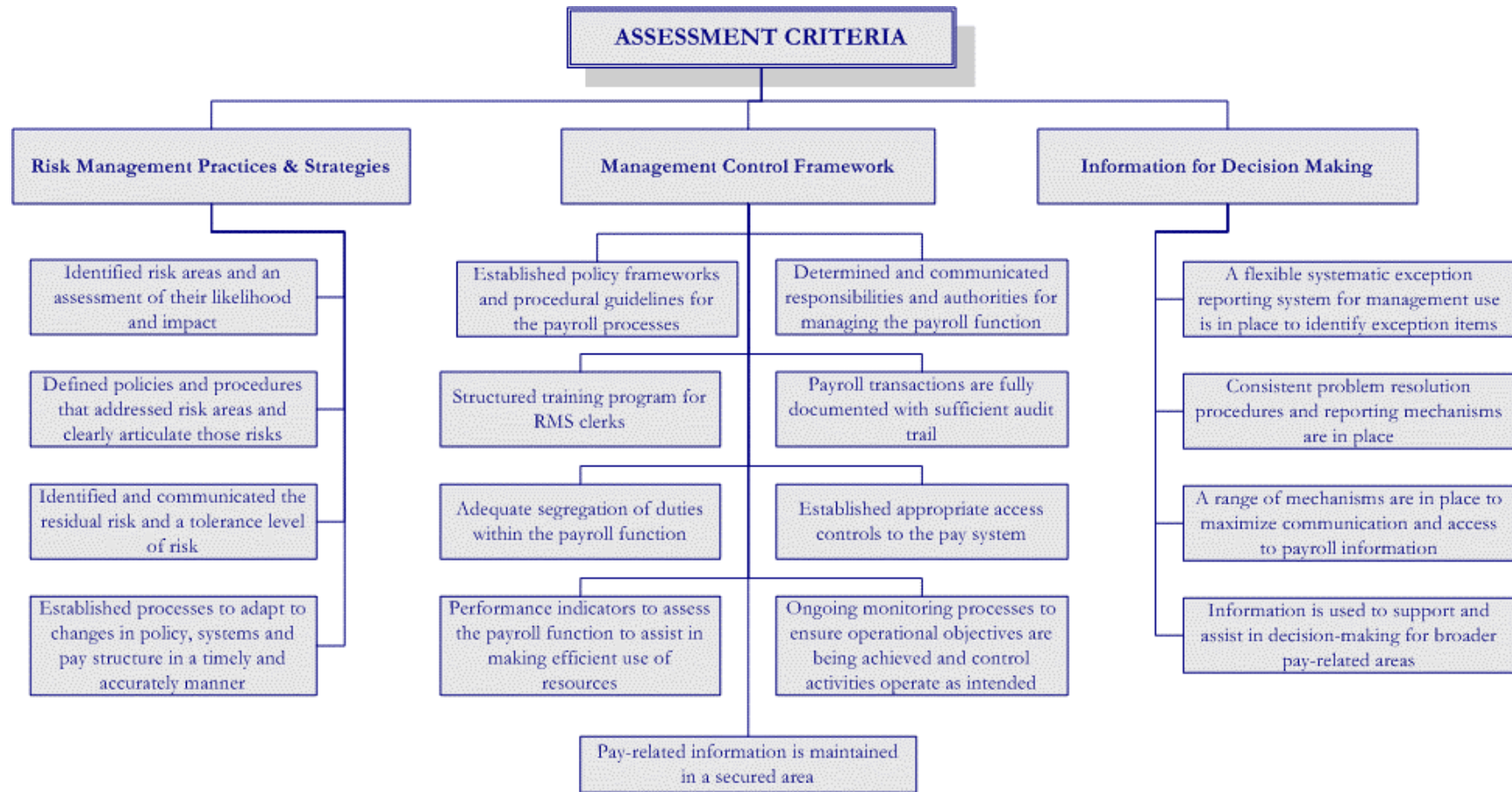


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ANNEX A

FIGURE 1 – ASSESSMENT CRITERIA FOR RISK-MANAGEMENT, PAYROLL-MANAGEMENT, AND INFORMATION FOR DECISION MAKING



ANNEX A

FIGURE 2 – ASSESSMENT CRITERIA FOR RANDOM SAMPLE OF PAY ACCOUNTS

	ATTRIBUTES (for basic pay)	Rank	Occupation Pay	Incentive Level	Pay Status	Enrolment in the Year	Promotion in the Year	Release in the Year	Reconciled to T4 Summary	Pension (CFPF/PPP)	Income Tax	Performance Pay	Allotment
	CRITERIA (accuracy and timeliness)												
1	Ensure member paid proper rank	A											Not within scope
2	Ensure member entitled to spec pay (if applicable)		A										
3	Ensure pay increase by subsequent month if became entitled to spec pay in the year		T										
4	Verify reasonableness of incentive level			A									
5	If change incentive level in the year, ensure pay increase effective by subsequent month			T									
6	Ensure member not paid for any period not actively employed				A								
7	Ensure pay is ceased as soon as member no longer actively employed				T								
8	Ensure member not paid prior to enrolment date					A							
9	Ensure pay was effective from enrolment date					T							
10	Ensure member not paid at new rank prior to effective date of promotion						A						
11	Ensure new rate of pay effective within one month of the effective date of promotion						T						
12	Ensure amount of severance pay was audited by DMCARM as required by policy							A					
13	Ensure basic pay ceased subsequent to release							T					
14	Ensure overall reasonableness of basic pay								A				
15	Ensure amount of CF pension contribution was IAW policy									A			
16	Ensure pension contributions are made monthly									T			
17	Ensure monthly deduction for income tax										T		
18	Ensure amount received for performance pay/performance management program IAW policy											A	

A = Accuracy – members are paid exactly what they are owed in exchange for services rendered.
 T = Timeliness – members’ pay guides are updated within 30 days from the date the salary or benefit has been earned.



ANNEX B

SUMMARY OF RECOMMENDATIONS AND POTENTIAL CONSEQUENCES IF NOT IMPLEMENTED

Areas of Concern	OPI	Recommendation	If Recommendation Is Not Implemented	
			Risk	Potential Consequences
Competencies of personnel responsible for delivering pay	ADM (Fin CS)	Institute a longer hand-over period and develop a coordinated training strategy to ensure that PAOs and payroll-supervisors have a greater understanding of their new roles and responsibilities and the importance of the approval process is not compromised.	<u>Human Resource Risk:</u> Personnel responsible for managing and controlling the payroll process do not possess the requisite knowledge, skills and experience.	The approval process is compromised, increasing the risk of errors.
		Develop procedural guidelines for PAOs and RMS clerks.		
Occupation transfer	ADM (HR-Mil)	Implement measures to ensure NCMs become trade qualified before they receive rates of pay of higher trade.	<u>Compliance Risk:</u> Transactions lack appropriate approval and do not comply with intent of policy.	Non-compliance with pay-related policies.
Detention	ADM (HR-Mil) ADM (Fin CS)	Place electronic notes on “members’ conduct sheet” in HRMS to remind clerks to impose forfeiture when a member serves a detention.		
Performance pay	ADM (HR-Mil)	Provide further clarification of Treasury Board policy and establish guidelines for what constitutes a “sufficient period of time.”		
.....	DHRIM that have immediate impacts on members’ pay,		
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ANNEX B

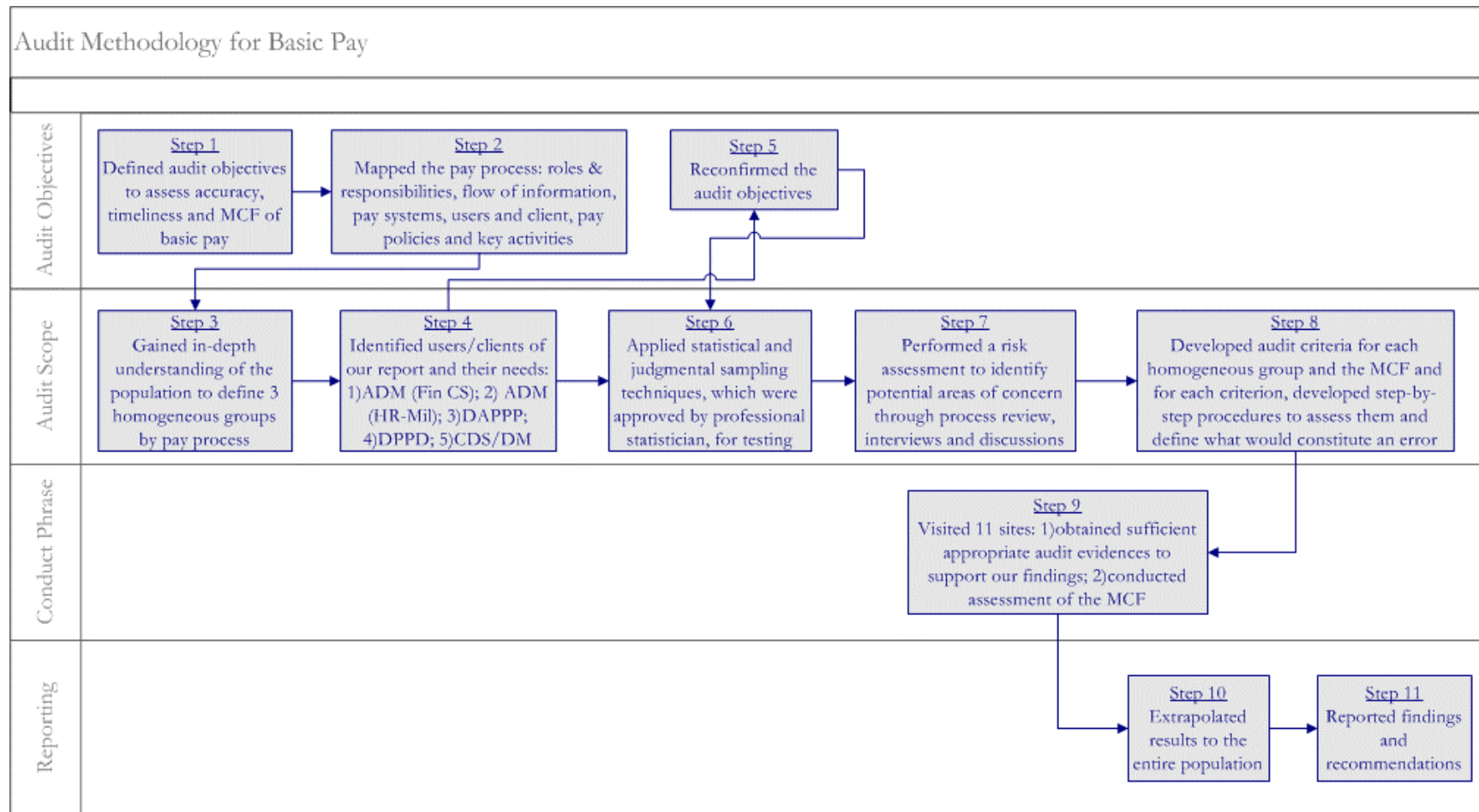
Areas of Concern	OPI	Recommendation	If Recommendation Is Not Implemented	
			Risk	Potential Consequences
		
Lack of performance measures and reporting	ADM (Fin CS)	Establish formal performance targets and indicators to enable management to assess the effectiveness and efficiency of the payroll process and monitor areas of concern.	<u>Communication Risk:</u> Results in ineffective vertical or horizontal communications within the payroll function and the organization.	Senior management is not made aware of payroll problems or inefficiencies.
		Provide RMS clerks and management with adequate training on utilizing and accessing RMDS reports to ensure the maximum benefits of using the reports are fully realized.		
Potential opportunities to realize significant savings	ADM (Fin CS)	Consider alternative means of delivering pay services that can encompass best practices applied by other organizations with special focus on consolidation of resources and exploitation of new technologies.	<u>Efficiency Risk:</u> Resources used to produce outputs are not minimized.	Payroll administration costs are increased as more payroll staff than necessary is in place.
Continuous auditing	ADM (HR-Mil) ADM (Fin CS) CRS	Develop technology-driven reports to allow management to continually monitor the accuracy of information.	Exposed to all risks and associated potential consequences identified in this annex.	

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ANNEX C

AUDIT METHODOLOGY



ANNEX D

SAMPLING METHODOLOGY AND RESULTS										
	POPULATION		SAMPLE		Sample Type	Confidence Level/ Interval per item	ERROR		Extra-polation	Error Rate
	Size (# mbrs)	\$ Value	Size (# mbrs)	\$ Value			No.	\$ Value		
REG and CLASS Cⁱ	71,600	\$3.2 B	300	\$13 M	Statistical	95 % (± 1%)	1 ⁱⁱ	\$2,590	\$2.5 M	0.09 %
Col and Above (DSA)	512		30		Judgmental ⁱⁱⁱ	N/A	0	\$0		
CFR^{iv}	265		20		Judgmental ⁱⁱⁱ	N/A	0	\$0		
TOTAL	72,237	\$3.2 B	350	\$13 M			1	\$2,590	\$2.5 M	0.09 %

ⁱ OFFICERS/NCMs (Including GSO, all Pilots/Navigators and Doctors/Dentist if rank below LCol/Cdr). The population includes any member who received a payment in 2001. In 2001, members received retroactive pay dating back to 1999. The population includes all such members who received retroactive pay, even though many had since been released. As of December 2001, there were 58,905 active Reg F and RF Class C members.

ⁱⁱ The audit noted that there were pay guides of another 3 members that were adjusted in the calendar year as a result of them providing additional information. This in our view does not constitute an error.

ⁱⁱⁱ These samples were determined with the assistance of a professional statistician. In his opinion, they are representative of their respective population. The sampled items were chosen on a random basis.

^{iv} Members who were Commissioned from the Ranks (CFR) during calendar year 2001.



ANNEX E

SUMMARY OF DIRECTED SAMPLING FOR BASIC PAY (SUPPLEMENTAL TESTING)

List of All Directed Sampling for Basic Pay – Military Pay Audit 2001			
Directed Sampling	Objectives	Findings	Period covered
<i>“Horses” on the payroll</i>	Ensure that, as of December 2001, only active members of Regular Force and Class C are paid through the CCPS.	All members paid via the CCPS in December 2001 were identified in HRMS as active members of the Regular Force and RF Class C.	December 2001
<i>Debit balances</i>	Ensure that members with debit balances greater than \$1,000 are monitored by DAPPP 5.	Debit balances to pay guides are, for the most part, caused by advances, medical/legal/travel claims, or allowances recoveries. We are satisfied that appropriate measures are in place to monitor pay guides of these members.	Reviewed DT balance reports for December 2002 and January 2003
<i>Performance pay while on education/ language-training leave</i>	For performance cycle 2001-2002, verify if senior officers who were on education/language-training leave for a significant period of time during the performance cycle received at-risk pay (performance pay).	Two senior members who attended education/language training for the entire performance cycle, along with 11 senior members who were on training for a period greater than six months during the performance cycle, received performance pay.	Performance cycle 2001-2002
<i>Pay guides of RMS clerks</i>	Identify any unusual transactions or amounts in the pay guides of RMS clerks between November 2002 and February 2003. If allowance is other than for clothing upkeep or post-living differential allowance, assess reasonableness.	Reviewed the pay guides of 30 RMS clerks. No unusual amounts, transactions or allowances were found.	November 2002 to February 2003 (four months)
<i>Multiple-user ID</i>	Ensure RMS clerks who have access to the CCPS have only one active user ID.	No user with more than one active account has been identified.	January 16, 2003
<i>Approved transactions</i>	Ensure that an audit trail is built into the CCPS to track transactions and personnel approving transactions, and to make certain that a single user ID did not both initiate and approve a transaction.	A review of 20 transactions found that mechanisms were in place to track the user ID that initiated and approved each transaction. In every reviewed transaction, different user IDs initiated and approved the transactions.	January 15, 2003 pay for basic pay and 2001 for allowances.
<i>Occupation transfer</i>	Verify that changes in pay rate, as a result of voluntary occupation transfers from standard to specialist trades, are consistently applied.	Policy is applied inconsistently; individuals start receiving their spec pay prior to, during or once training is completed.	April 2002 to November 2002
<i>Imprisonment or detention</i>	Ensure that the pay guides of members serving imprisonments or detentions were adjusted according to policy.	Policy was adhered to for imprisoned members. For members undergoing a punishment of detention, in five of 11 cases reviewed, forfeitures were not imposed as required by policy.	Calendar years 2001 and 2002



ANNEX F

RECOMMENDATIONS & MANAGEMENT ACTION PLANS

Ser	CRS Recommendation	OPI	Management Action
1	Develop a coordinated training strategy for all new Public Accounting Officers (PAOs) and Resource Management Support (RMS) clerks.	ADM (Fin CS)	Finance Staff will work with the CF School of Administration & Logistics and the Environmental Chiefs of Staff to assess what can be done.
2	Develop procedural guidelines for PAOs and RMS clerks.		<p>Activities to assist staff in the field will include:</p> <p>Annual Pay Conferences (starting winter 2004), basis: - Target audience PAOs and Senior NCM positions.</p> <p>Message to include pay policies and procedures – bridging the gap between formal training and on-the-job training.</p> <p>D Mil Pay Website to provide PAOs and RMS Clerks with a Central Computation Pay System (CCPS) Quick Reference, FAQs and a list of contacts. Will provide knowledge, enhanced pay-related training and improve capabilities.</p> <p>Monthly audit of debit balances, reinforcing technical net communications.</p> <p>D Mil Pay recently conducted a series of Staff Assistance Visits, continuing on a cyclical basis.</p>
3	Implement measures to ensure NCMs become trade-qualified before they receive rates of pay for the new trade or to otherwise establish clear policy and follow-through implementation.	ADM (HR-Mil)	Over the past year, various directorates in the HR-Mil Group have been working together to resolve all implementation issues. To this end, a submission has been raised to seek gov't approval for a change in pay policy. The intent of the new policy will be to award specialty pay upon attainment of the necessary skills and knowledge as prescribed in the occupation specifications. Implementation of new policy is targeted for September 2004.



ANNEX F

Ser	CRS Recommendation	OPI	Management Action
4	Place electronic notes on “members’ conduct sheet” in the Human Resources Management System (HRMS) to remind clerks to impose forfeiture when a member serves a detention.	ADM (HR-Mil)	Instructions in the On-Line Help System of the HRMS (COACH) regarding how to trigger a reduction in a member's pay if there is Detention, including adding comments to the Member's Conduct Sheet, have been issued. The instructions are not as clear as they could be and will be clarified in the next update to COACH.
5	Provide further clarification of Treasury Board policy and establish guidelines for what constitutes a “sufficient period of time” to earn pay at risk.	ADM (HR-Mil)	In conjunction with D Mil Careers and D Senior Appointments, as appropriate, D Pay, Policy and Development will conduct a policy review to determine if additional clarification and transparency of pay policy and/or standardization of key commitments for senior officers on extended training is required.
6 that have immediate impact on members’ pay,	ADM (HR-Mil)/ DHRIM	DHRIM An implementation plan will be finalized after considering all the viable options.
7	ADM (Fin CS)

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ANNEX F

Ser	CRS Recommendation	OPI	Management Action
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ANNEX F

Ser	CRS Recommendation	OPI	Management Action
11	Provide RMS clerks and management with adequate training on utilizing and accessing RMDS reports to ensure the maximum benefits of using the reports are fully realized.	ADM (Fin CS)	<p>Improvements to the CCPS Home Page will be implemented to provide more timely/relevant responses to FAQs.</p> <p>We will highlight to AO's and Senior RMS Clerks, both at the upcoming Pay Conference and on our website, which reports are more informative, with indications as to how to best interpret the data (start in November 2003).</p> <p>We have developed (first draft) a "Pay Office Supervisor's Guide". This Guide will be web accessible and provide specific advice/direction to AO's on how best to exploit available reports. Guide to be issued in FY 2004/05.</p>
12	ADM(Fin CS) should pursue opportunities for productivity gains in the delivery of pay services, including opportunities to further exploit new technologies and to progressively consolidate the delivery of pay services at the local, regional or headquarters level.	ADM (Fin CS)	As part of the planned activity during the option analysis phase of the Canadian Forces Pay System Project is a review of the current concept of operation. This activity will not be completed until FY2005/06. Current plan is to seek guidance on this issue at the project Senior Review Board in the 1 st Quarter Fiscal Year 2004/05.

