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## Audit of Military Compensation and Benefits



December 2015

7050-69 (ADM(RS))

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## Acronyms and Abbreviations

ADM(RS)	Assistant Deputy Minister (Review Services)
CAF	Canadian Armed Forces
CANFORGEN	Canadian Forces General Order
CBI	Compensation and Benefits Instructions for the Canadian Forces
CDS	Chief of the Defence Staff
CMP	Chief Military Personnel
DGCB	Director General Compensation and Benefits
DGCFGA	Director General Canadian Forces Grievance Authority
DND	Department of National Defence
FY	Fiscal Year
MGERC	Military Grievance External Review Committee
OPI	Office of Primary Interest
SAV	Staff Assistance Visit
TB	Treasury Board of Canada

## Results in Brief

The Department of National Defence (DND) is responsible for administering compensation and benefits for regular and reserve force members. According to the *National Defence Act*, the Treasury Board of Canada (TB) is responsible for establishing the rates and conditions of issue of pay for officers and non-commissioned members. As such, related policy instruments are developed by DND but they are only effective upon TB approval. Chief Military Personnel (CMP) is responsible for the development of strategies, policies and programs that foster and maintain military careers as honourable and desirable.<sup>1</sup> There are approximately 68,000 regular force members employed by the Canadian Armed Forces (CAF). The departmental spending for fiscal year (FY) 2013/14 on regular force military personnel is approximately \$5 billion, which represents approximately 28 percent of the planned departmental budgetary expenditures.<sup>2</sup>

### Overall Assessment

CMP could increase the effectiveness of the administration of military compensation and benefits by clarifying their policy instruments, improve their communication, assess and monitor their risks and improve and update the training required to perform pay duties.

CMP manages a large number of benefits for regular and reserve force members. From FY 2011/12 to FY 2013/14, CMP reported systemic errors related to six benefits affecting approximately 22,500 members, including overpayments of benefits<sup>3</sup> totalling approximately \$5.3 million. According to the Military Grievance External Review Committee (MGERC), the issues regarding administration of compensation and benefits “continue to affect morale and cause frustration and financial hardship.”<sup>4</sup> The administration of these errors has generated additional administrative costs to the Department.

Over the past three calendar years, the Department has received approximately 1,259 adjudication and grievance claims annually related to compensation and benefits, adding to a pre-existing backlog of claims. This situation has also been reported by the Office of the Ombudsman for DND and CAF and by MGERC.<sup>5</sup> Director General Compensation and Benefits (DGCB) has stated that a shortage of resources and an increase in required service delivery standards are impacting its ability to administer military compensation and benefits effectively.

The objective of this audit was to assess whether CMP governance and risk management structures are effective in managing compensation and benefits, and that the control framework ensures all CAF members receive their entitled remuneration.

## Findings and Recommendations

<sup>1</sup> <http://www.forces.gc.ca/en/about-org-structure/chief-military-personnel.page>.

<sup>2</sup> Financial Status Report FY 2013/14. This number includes only Regular Force members pay and benefits.

<sup>3</sup> In this document, the expression “overpayment of benefits” also includes benefits to which a member was not entitled.

<sup>4</sup> MGERC. 2012 Annual Report – Home Equity Assistance.

<sup>5</sup> MGERC is a federal body that is independent of DND and the CAF; it reviews military grievances referred to it and provides impartial findings and recommendations to the Chief of the Defence Staff (CDS) and the grievor. MGERC reviews military grievances referred to it pursuant to s. 29 of the *National Defence Act*.

**Governance:** Reference materials used to guide the administration of compensation and benefits are complex and unclear, and this has led to some misinterpretation of benefit entitlements. Compensation and Benefits Instructions for the Canadian Forces (CBI) are the ultimate policy in this area but are prone to misinterpretation because they lack clarity, do not use plain language and are supported by too many various sources of reference material. In many cases, several policy and procedure instruments must be used in addition to the CBI in order to administer one benefit. This has created a cycle where unclear policies lead to an increasing number of adjudications and grievances, which has led to a shift of resources from policy review to administration of adjudications and grievances, resulting in fewer policies being reviewed and clarified.

It is recommended that CMP increase the priority of the policy review function by assigning appropriate resources to the development and implementation of a plan to update and clarify policies in a timely manner.

**Communication:** Although communications on policy changes exist, the absence of a comprehensive communications strategy has led to various tools being utilized inconsistently in the administration of compensation and benefits.

For policy-related changes, CMP makes use of different communications mechanisms, leading to inconsistent messages and misapplication of the policies and regulations. Several cases have been observed where the messages communicated deviated from the CBI.

It is recommended that CMP develop and implement a comprehensive communications strategy to ensure a consistent format and an effective dissemination process of benefit policy information and decisions.

**Risk Management:** Although CMP has identified its key risks related to the administration of military compensation and benefits, they have not all been adequately managed.

CMP has not developed a systematic approach to prevent and detect policy errors. This has resulted in transactional errors which have been discovered as a result of pay office inquiries by force members rather than through a risk management process. CMP has indicated the need to review the administration of compensation and benefits but this has yet to occur. While policy-makers consult stakeholders and legal advisers when developing a policy, there continue to be issues with unclear terminology.

It is recommended that CMP develop a formal risk management strategy related to compensation and benefits.

**Controls:** Controls and procedures to ensure proper administration of compensation and benefits are not being consistently followed. For the transactions examined, approximately half of the documents did not have the required approval, or were not on file. Monitoring reports which identify anomalies with compensation and benefits were not consistently used.

It is recommended that CMP develop streamlined and comprehensive procedural guidance and update formal training of pay office personnel to reflect all areas of responsibility, and ensure that regular oversight of key controls is effective.

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**Note:** For a more detailed list of Assistant Deputy Minister (Review Services) (ADM(RS)) recommendations and management response, please refer to [Annex A—Management Action Plan](#).

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## 1.0 Introduction

### 1.1 Background

CMP's mission is to recruit, train, educate, prepare, support, honour and recognize military personnel and their families for service to Canada. Among its responsibilities, CMP provides functional direction and guidance to approximately 68,000 regular force and 27,000 reserve CAF members<sup>6</sup> on all military personnel management matters.

DGCB reports to CMP and is responsible for developing and implementing affordable compensation policies that recognize the value of the work that CAF members do and the conditions or special circumstances of their employment.<sup>7</sup> DGCB responsibilities also include the administration, monitoring and application of policies and programs in the area of benefits, and the administration of the military pay functions and related account processing functions.

Sound compensation and benefits management ensures that members of the CAF are compensated in accordance with their terms of employment. Military pay is administered through DND's Central Computerized Pay System for regular force members. Pay rates for force members are set and regulated by TB. According to the Departmental Financial Status Report for FY 2013/14, regular force pay and benefits totalled \$5 billion, which represents approximately 28 percent of the planned departmental budgetary expenditures.<sup>8</sup> Military benefits include funds given to a member on behalf of the CAF as an incentive or to address specific needs. An "allowance" is a type of benefit given to a member for temporary service in a designated position. There are over 18 allowances for military members related to a range of situations from working in harsh environments to cost-of-living discrepancies between locations. Due to the temporary nature of allowances and the current capabilities of the Central Computerized Pay System, allowance administration must be done manually, which may increase the probability of error.

DND's system for military compensation and benefits is currently undergoing a transformation that is scheduled to deliver an initial operating capability in October 2015. Some of the expected outputs of this Military Personnel Management Capability Transformation project include more integrated and simplified policies, processes and procedures, and a modernized and standardized payroll solution that will deliver timely and accurate pay and allowances to military members.

Any military member is entitled to the adjudication and/or the grievance process. In the adjudication process, members may submit an adjudication claim to DGCB for a decision. Adjudication is a quasi-judicial process whereby a third party, in this case DGCB, gives the parties involved the opportunity to be heard or to argue their position, and then provides a decision.<sup>9</sup>

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<sup>6</sup> FY 2013/14 Department of National Defence Report on Plans and Priorities.

<sup>7</sup> [http://cmp-cpm.forces.mil.ca/dgcb/engraph/home\\_e.asp?sidesection=1](http://cmp-cpm.forces.mil.ca/dgcb/engraph/home_e.asp?sidesection=1).

<sup>8</sup> Financial Status Report FY 2013/14. This number includes only Regular Force members pay and benefits.

<sup>9</sup> [http://www.tbs-sct.gc.ca/pubs\\_pol/hrpubs/tbm\\_11b/ga-lda01-eng.asp](http://www.tbs-sct.gc.ca/pubs_pol/hrpubs/tbm_11b/ga-lda01-eng.asp).



The grievance process related to compensation and benefits starts when a member submits a written grievance to their Commanding Officer.<sup>10</sup> If the Commanding Officer is unable to grant the redress sought, they will forward it to DGCB. DGCB will review the grievance and render a decision. If the member is not satisfied with the decision, they are entitled to have their grievance assigned to the CDS for final authority level of consideration and determination. The Director General Canadian Forces Grievance Authority (DGCFGA) is responsible for the administration of the military grievance system. On behalf of the CDS, DGCFGA may forward the grievance to the MGERC for recommendations.<sup>11</sup> Then, CDS renders the final decision on the grievance.

The total combined budget for both Final Authority organizations is approximately \$8 million annually.<sup>12</sup> This does not include the resources utilized by all of the other remaining stakeholders in Figure 1.



**Figure 1. Summary of Grievance Process.**<sup>13</sup> This diagram shows the grievance process from the submission of a grievance to the review by the initial authority and final authority.

## 1.2 Rationale for Audit

In light of the administrative errors that have occurred and the impact that errors can have on members and the Department, the ADM(RS) 2013/14 Risk-Based Audit Plan included an audit of Military Compensation and Benefits.

## 1.3 Objective

The objective of the audit was to assess whether CMP governance and risk management structures are effective in managing compensation and benefits, and that the control framework ensures all CAF members receive their entitled remuneration.

<sup>10</sup> [http://mgerc-ceedgm.gc.ca/rpt/ar-ra/2013/02-eng.html#section\\_2\\_3](http://mgerc-ceedgm.gc.ca/rpt/ar-ra/2013/02-eng.html#section_2_3).

<sup>11</sup> Queen's Regulations and Orders, Section 7.20.

<sup>12</sup> MGERC 2013 Annual Report and DGCFGA operation costs (not audited by ADM(RS)).

<sup>13</sup> MGERC 2013 Annual Report.



For a detailed list of criteria associated with the audit objective and the source of the criteria, please refer to [Annex B—Audit Criteria](#).

## **1.4 Scope**

The audit scope included the assessment of the current CMP governance and management practices in administering and delivering military compensation and benefits from FY 2011/12 to 2013/14. Five benefits were selected to be tested during file review based on their materiality, frequency of use, and risk of transactional errors given their complexity. The five benefits selected were Maternity and Paternity Leave, Post-Living Differential Allowance, Aircrew Allowance, Sea Duty Allowance and Land Duty Allowance.

The audit scope did not include the following:

- Pensions, health care and payroll taxes;
- Reserve force pay and benefits;
- The Integrated Relocation Program; and
- The application controls within the Central Computerized Pay System.

## **1.5 Methodology**

The following methodology was used in conducting the audit:

- Reviewed relevant Government of Canada and DND policies, directives, orders, and regulations;
- Reviewed various annual reports and committee minutes from the Office of the Ombudsman for DND and CFA, the MGERC, and various organizations within DND;
- Reviewed and analyzed briefing notes, requests for approval, investigations and grievances pertaining to military compensation and benefits;
- Interviewed various external and internal stakeholders;
- Extracted data from the Central Computerized Pay System and performed data analysis;
- Selected a sample of 195 members receiving at least one of the five benefits within the scope of the audit resulting in 356 benefits transactions tested; and
- Visited three sites that had a high payout of the benefits within the scope of this audit and interviewed pay office staff: 17 Wing Winnipeg, Canadian Forces Support Unit Ottawa, and Canadian Forces Base Halifax.

## 1.6 Audit Criteria

The audit criteria can be found at Annex B.

## 1.7 Statement of Conformance

The audit findings and conclusions contained in this report are based on sufficient and appropriate audit evidence gathered in accordance with procedures that meet the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. The audit thus conforms to the Internal Auditing Standards for the Government of Canada, as supported by the results of the quality assurance and improvement program. The opinions expressed in this report are based on conditions as they existed at the time of the audit, and apply only to the entity examined.

## 2.0 Findings and Recommendations

### 2.1 Governance

Reference materials used to guide the administration of Compensation and Benefits are unclear and complex, leading to the misinterpretation of benefit entitlements.

#### 2.1.1 Complex Reference Materials

DGCB is responsible for administering all military compensation and benefits and delivering a fair and effective program to members. The administration of compensation and benefits includes in part the drafting, review and amendment of CBI. Although the CBI are approved by TB and represent the final authority on a benefit, some benefits are subject to other regulations, policies and provincial legislation. DND has created other policy guidelines and procedures that support the administration of such benefits.

Benefit entitlements are sometimes misinterpreted, because the CBI are not always clear, include legal text, and require a number of various reference materials to support them. In addition to CBI, there are at least nine different sources of information that might need to be consulted to administer compensation and benefits.<sup>14</sup>

#### Good Practices

The CF Personnel Management Committee provides senior leadership review and advice on issues and plans affecting the management of military personnel. Its new structure should provide greater oversight over military compensation and benefits and increase awareness across the Department of the issues addressed by CMP.

In an attempt to resolve the issue of having to consult so many different sources of information, a comprehensive guide that grouped all relevant regulations, policies and messages pertaining to specific benefits was developed in 2006. This was a noteworthy attempt to provide assistance to regional pay office personnel and to facilitate the calculation of benefits. However, it was determined in 2011 that some of the benefit information contained in this guide was inconsistent with the CBI and its use was discontinued. These inconsistencies resulted in some benefits being paid without the required TB authorization, and resulted in members owing money to the Crown. Corrective action has been initiated by the Department.

In addition to unauthorized payments resulting from this guide, DND subsequently discovered additional discrepancies in payments of benefits and allowances which affected approximately 22,500 regular, reserve and released CAF personnel resulting in net overpayments of approximately \$5 million. Those errors were a result of misinterpretation of policies pertaining to benefits and allowances. During the course of the audit, one CBI analyzed had two conflicting interpretations. In 2013, DGCFGA identified at least 15 policies that were misinterpreted which

<sup>14</sup> Reference materials consulted in the administration of military benefits include CANFORGEN – Canadian Forces General Orders; DAOD – Defence Administrative Orders and Directives; QR&O – Queen's Regulations and Orders; A-PM 245 (Procedures); AIG – Address Indicating Group – Specific set of actions sent to a distribution list; Financial Administration Manual (being updated); Canadian Forces Administrative Orders; Frequently Asked Questions; and emails.

led to formal grievances. In its 2012 annual report, MGERC indicated that the recurring issue of overpayments is the result of outdated or flawed policies and regulations. From January 2011 to December 2012, the MGERC received 198 individual grievances related to compensation and benefits.

The administration of military compensation and benefits is a very complex undertaking and it requires policy guidance and direction. The absence of clear policies and guidelines has led to administrative and transactional errors. Misinterpreted policies and correction of unauthorized benefits have caused a high number of adjudications and grievances and has impacted DGCB's workload and members' morale and financial situation.

### **2.1.2 Realignment of Priorities**

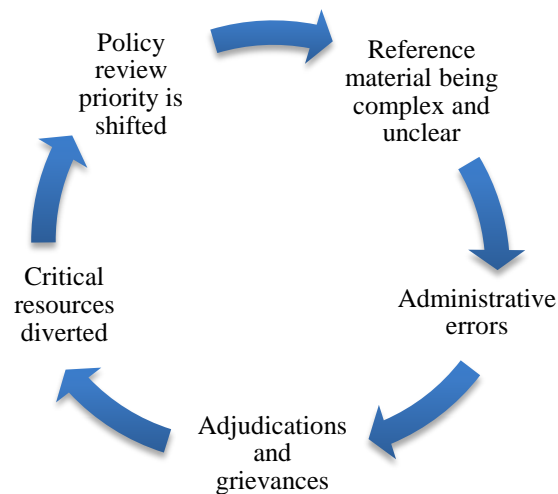
In order to address the increased workload in adjudications and grievances, DGCB needed to divert resources away from the cyclical policy review process that it had established to clarify problematic policies. Although DGCB has 60 days to render a grievance decision,<sup>15</sup> the 170 annual grievances received between FY 2011/12 and FY 2013/14 took a minimum of 12 months for a decision to be delivered. In 2013, MGERC reported that DGCB had a backlog of about 240 grievances and would require from 10 to 20 months to process them.

In 2013, the MGERC reported that in addressing over 1,000 adjudication claims annually, DGCB took up to 12 months to provide individual adjudication decisions. There is no regulation or guidance for expected adjudication response time. Since December 2013, personnel within DGCB have been reallocated to address this backlog of adjudications and grievances. Although DGCB has made strides in reducing the backlog, it still remains a significant challenge.

In its Business Plan for the last three years, DGCB has reported that it is not adequately staffed to fulfill its mandate. The ability of DGCB to develop and implement policy change has been affected by the need to divert policy development resources in order to address various demands from external stakeholders and from the workload caused by adjudications and grievances. In these business plans, CMP highlights a high rate of personnel staff turnover, a shortage of skilled personnel and a lack of experienced individuals as having a direct impact on the processing of adjudications and grievances. At the time of the audit, however, three of the four positions in the policy development organization were vacant.

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<sup>15</sup> Queen's Regulations and Orders, Article 7.15 (7); the time limit has been increased to 120 days since June 1, 2014.



**Figure 2. Cycle Resulting from Unclear Policies.** This figure shows the consequences of not addressing the review of compensation and benefits reference material. Without policy and reference material review and amendment, additional errors will occur and the same problems will continue.

As shown in Figure 2, prioritizing and adequately resourcing the process of reviewing and updating policies could contribute to the reduction of transactional errors which decreases the number of adjudications and grievances. The Department reallocated its policy development and review resources to address the backlog of adjudications and grievances resulting from a confusing suite of policies, further reducing the number of policies being reviewed.

Transactional errors have a financial impact on CAF members and the increased number of adjudications and grievances is a symptom of decreased morale. The overpayments resulting from these transactional errors combined with the administrative cost for the Department to manage the errors and related adjudication and grievance processes at various levels within the Department translates into a significant corporate cost.

### **ADM(RS) Recommendation**

1. CMP should increase the priority of the policy review function by assigning appropriate resources to the development and implementation of a plan to update and clarify policies in a timely manner.

**OPI:** CMP

## 2.2 Communication

Although communications of policy changes exist, the absence of a comprehensive communications strategy has led to various tools being utilized inconsistently in the administration of compensation and benefits.

CMP does not have a comprehensive communications strategy pertaining to military compensation and benefits. As indicated in interviews and committee minutes, there is a clear sense of dissatisfaction with the communications on compensation and benefits. Communication is a key tool to enhance the members' understanding of their compensation and benefits and to educate pay office personnel on the correct interpretation of related policies so members receive their appropriate entitlements. A number of tools are currently being used to communicate changes or clarifications pertaining to military compensation and benefits such as emails, CANFORGENs, CMP letters, briefing notes, and Central Computerized Pay System messages.

Inconsistencies were observed in informal policy clarifications provided through emails from DGCB staff. Pay staff have received different interpretations of the same policy inquiry from different staff members within DGCB. These inconsistent interpretations have led to different applications of policy. Responses to a policy clarification request are not stored in a registry where they could be accessed and shared when similar enquiries are submitted.

CANFORGENs have been issued to broadcast policy changes and clarifications to a wide audience. Unfortunately, the use of CANFORGENs has caused problems as their wording can deviate from the original CBI, thus leading to errors. This has ultimately forced DGCB to invest time and resources to correct the inappropriate interpretation and application of the policies. Officials have indicated that the proliferation of CANFORGENs needs to be addressed as they have become a replacement for official documents.

Pay office managers must also ensure that proper information is delivered to their pay staff and members. Inconsistent use of communications tools is causing misunderstanding at the working level over the importance of messages about the implementation of various policies. For example, there were instances when some of the communications received at the working level were dismissed because they were not in an expected format. Also, there were instances when different tools were providing contradictory information for the same benefit. Compensation and benefit policies and subsequent guidance and interpretation information is not located in a single repository. This has resulted in pay staff using social media to share information on compensation and benefits issues. Though it could be effective in communicating issues, there is a high risk that the information disseminated could be incorrect, as there is no control over the information that is posted through the social media site. This could lead to more administrative errors.

Without a comprehensive and consistent communications strategy, misapplication of policies is more likely to occur, resulting in errors and increased resource utilization to provide extra clarification and to deal with subsequent adjudications and grievances. The financial impact of these errors and the perception of unfair financial treatment could negatively impact CAF members.

## ADM(RS) Recommendation

2. CMP should develop and implement a comprehensive communications strategy to ensure a consistent format and an effective dissemination process of benefit policy information and decisions.

OPI: CMP

## 2.3 Risk Management

Although CMP has identified its key risks related to the administration of military compensation and benefits, they have not all been adequately managed.

One of the principal risks that must be managed in this area is the development and administration of related policies. In order to manage this risk, it is expected that DGCB would perform a comprehensive analysis before the policy is implemented, and a review following its implementation.

One of the consequences of not mitigating those risks has been systemic errors causing members to receive overpayments of benefits. These systemic errors were generally found as a result of inquiries from bases or by pay office staff, and not the result of a periodic review of benefit entitlements.

While DGCB consults stakeholders when it develops a policy before it is implemented, an effective risk management framework that prevents unclear policies from coming into effect is not in place.

### Good Practices

Two sites visited that manage Post Living Differential allowances initiated an internal review to ensure compliance with the policy.

Once a policy has been in effect for a period of time, there should be a review to determine if the policy is being administered as intended. CMP indicated that CAF compensation and benefits would be incorporated into its Comptroller staff's risk-based internal review plan. Since 2011, there have been three CMP-led reviews in the area of military compensation and benefits.<sup>16</sup> Following the discovery of overpayments of benefits in 2013, CMP indicated that their current strategy relied in part on Chief Review Services to perform an audit of specific benefits. Although this can be helpful, an effective risk management strategy should include a systemic in-house monitoring component. The implementation of an effective management action plan to Recommendation 1 of this report should address this issue.

By not actively managing key risks in policy development and policy administration in an effective manner, systemic errors with regard to benefits are likely to continue.

<sup>16</sup> The three reviews were Reserve Force Retirement Gratuity Fund, Recruiting Allowances and Obligatory Service, and Payment in Lieu of Canadian Forces Severance Pay.



### **ADM(RS) Recommendation**

3. CMP should develop a formal risk management strategy related to compensation and benefits.

**OPI:** CMP

## **2.4 Controls**

Controls and procedures are not being consistently followed to ensure proper administration of compensation and benefits.

Internal controls are critical to the effectiveness and efficiency of operations, and compliance with laws and regulations. There is a control framework in place for compensation and benefits; however, the controls are not applied on a consistent basis.

As part of the audit, the personnel files for 195 military members receiving one or more of the benefits within the scope of the audit were selected for file review. This resulted in the testing of 356 benefit entitlements requiring a total of 1,137 forms and supporting documents. These files were selected from the three regional pay offices selected in the audit. In addition to testing for benefits, the selected member personnel files were reviewed for accuracy of pay and no errors were found. In terms of the 356 benefits reviewed, 57 had a potential discrepancy in benefit payments.

### **2.4.1 Supporting Documentation**

In aggregate for the sample, approximately 58 percent (657/1,137) of the total amount of required forms and supporting documentation were on file for the 356 benefit transactions reviewed. Unfortunately, over 90 percent (321/356) of the transactions tested did not have all required supporting documentation including the approval form to receive the benefits on file. Providing an audit trail for each allowance is important so that it can be justified. For example, a tool used for the calculation of a benefit provided a trail that subsequently allowed the Department to identify an important error and to determine its extent.

A general allowance form is required to initiate Post Living Differential and Maternity/Parental Leave allowances. This form was not on file in 97 percent (183/188) of these examined transactions. Other required allowance forms were not on file for 29 percent (103/356) of the transactions tested. These forms include a request for approval signature that is required for the initiation of an allowance.

### **2.4.2 Delegation of Authority Minimum Rank**

DGCB determines the minimum military rank required to have delegated authority. All 356 of the benefit entitlement transactions tested required delegated authority approval. Of these 356 transactions, 51 percent (181/356) were approved by a rank at the appropriate delegated authority, while 21 percent (74/356) were approved by a rank below the appropriate delegated authority. For the remaining 28 percent (101/356) of cases, the approval form was not on file.

For the sites visited, 10 of the 44 members that had received delegation of authority for pay were at a rank below the minimum delegated authority level. Without proper approval, there is an increased probability of errors in the benefits paid. This increases the risk of overpayment of benefits.

### 2.4.3 Monitoring

The Central Computerized Pay System contains a reporting tool that allows pay supervisors to ensure that details of all pay accounts are current but it was not used consistently at the sites visited. This tool can produce a report that helps the pay officer quickly identify which allowances do not have an end date. If the report is not generated and reviewed, the pay officer would have to review each individual benefit for each member to determine if an end date has been entered in the system, which would be very time consuming. Not having an end date increases the risk of not terminating the allowance on time, thus allowing overpayments to occur. Both a 2005 Chief Review Services' CAF Allowances Audit, and a FY 2013/14 Staff Assistance Visit (SAV) Annual Report to Level 1s recommended that pay offices generate these reports periodically in order to track anomalies within their members' pay accounts. There are few controls within the pay and benefit system that prevent unauthorized allowances being processed. By not running these reports, pay supervisors, most of whom work at the base/wing level, limit their ability to identify and correct any error in a timely manner.

### 2.4.4 Training and Guidance

Compensation and benefits policies and procedures are very complicated, and pay office personnel need to thoroughly understand them in order to be able to administer the many different benefit entitlements. Based on a study of pay office personnel in 2013,<sup>17</sup> the training for new personnel does not address all areas of their jobs. They have limited exposure to the Central Computerized Pay System and they have not yet been trained on significant job elements such as financial accountability, audit trails, and delegations of authority. On-the-job training is the norm and is performed by other pay office personnel. According to the study, it is also difficult for pay office personnel to get the necessary experience in all functions before achieving a rank which may allow them to have delegated authorities.<sup>18</sup> A complete understanding of benefit entitlements is essential to avoid the risk of payment errors. A detailed procedures manual would be a helpful tool for showing less-experienced pay office personnel how to administer and calculate benefit entitlements.

#### Good Practices

Each pay office visited holds weekly meetings to share best practices and errors encountered by pay staff.

DGCB has provided some helpful tools to pay office personnel such as a Frequently Asked Questions wWeb page and a Helpdesk. Although Frequently Asked Questions are available to help pay office personnel manage some benefit entitlements, those answers are general cases and do not apply to every situation. Pay office staff must always verify compliance with CBI as

<sup>17</sup> ADM(Mat) – Log Branch Integrator – Resource Management Support Clerk Problem Definition Paper – September 2013.

<sup>18</sup> Ibid.

many scenarios are not addressed in the FAQ. According to DGCB, the Helpdesk received 21,855 queries in FY 2013/14.

During the course of this audit, officials and pay staff have confirmed the need for improving and updating the training required to perform all responsibilities related to pay and benefits. An occupational analysis is underway to identify the core competencies required for pay staff to perform their duties. Pay office personnel must have the necessary skills, experience and training to be able to do the job in an effective manner. The 2003 CRS Military Pay Audit and the SAV team's 2012/13 annual report have both raised the same issue with regard to the insufficient knowledge or experience within the pay office personnel community to either perform their duties or interpret CBI properly. Complex and unclear reference material combined with the absence of a procedures manual and inadequately trained pay office personnel has increased the probability of making transactional errors.

Some of these issues could be attributable to the decentralized nature of the administration of compensation and benefits at DND/CAF and the impact this has on assigning accountability for associated activities. Although CMP is effectively the functional authority for compensation and benefits and its oversight, compensation and benefits are administered by pay office personnel located in the various regions with a local chain of command. These pay office personnel have only a functional relationship with CMP. Such functional relationships make it difficult for CMP to ensure that guidance and direction related to compensation and benefits are followed without extensive monitoring.

While SAVs are an effective monitoring process, they only occur at each location approximately every three years. A regular oversight function is required to detect systemic control weaknesses from reoccurring. Not having sufficient oversight of key controls increases the risk of errors. Given the complex nature of the various policies and procedures involved, CMP should consider the benefits of enhanced automation in the administration and calculation of compensation and benefits.

#### **ADM(RS) Recommendation**

4. CMP should develop streamlined and comprehensive procedural guidance and update formal training of pay office personnel to reflect all areas of responsibility and ensure that regular oversight of key controls is effective.

**OPI:** CMP

### 3.0 General Conclusion

Overall, the governance and risk management structures, and the control framework, require improvement to increase the effectiveness of compensation and benefits management, and to ensure that all CAF members receive remuneration to which they are fully entitled in accordance with policy and legislation.

The policies and reference materials used to guide the administration of military compensation and benefits are complex and require clarification in order to reduce the number of errors in the application of entitlements. These errors have caused an increase in adjudications and grievances. To deal with these, the Department has re-allocated resources that could otherwise be reviewing the benefit policies, further exacerbating the problem. Until the review of policies is given the same priority as the management of adjudications and grievances, the underlying cause will not be addressed. DGCB has indicated that an increase in required service delivery standards and a shortage of resources are impacting its ability to administer military compensation and benefits effectively.

While these risks have been identified by the Department, an effective mitigation strategy has yet to be implemented. A control framework for the administration of pay and benefits transactions is in place; however, some control activities were not performed. Personnel who work in pay offices require extensive knowledge to fulfill all the required responsibilities, but the current guidance and training needs improvement to support them. The recommendations are provided to enhance the governance, risk management and controls to support the delivery of fair and accurate remuneration to CAF members.

## Annex A—Management Action Plan

ADM(RS) uses recommendation significance criteria as follows:

**Very High**—Controls are not in place. Important issues have been identified and will have a significant negative impact on operations.

**High**—Controls are inadequate. Important issues are identified that could negatively impact the achievement of program/operational objectives.

**Moderate**—Controls are in place but are not being sufficiently complied with. Issues are identified that could negatively impact the efficiency and effectiveness of operations.

**Low**—Controls are in place but the level of compliance varies.

**Very Low**—Controls are in place with no level of variance.

### Governance

#### ADM(RS) Recommendation (High Significance)

1. CMP should increase the priority of the policy review function by assigning appropriate resources to the development and implementation of a plan to update and clarify policies in a timely manner.

### Management Action

Concur. DGCB has initiated efforts on all three fronts and has identified this as a priority in the past two Business Plan submissions. Specific to policy review: “DGCB will continue to conduct a cyclical review of all its policies to amend or implement new ones as required by Government, ensuring they meet the intent of TB direction and CAF needs.” The intent is to concentrate on systemic issues while continuing to focus on developing and implementing new policies that “better meet the needs of the CAF members.” The goal is to “provide for better management of expectations when it comes to members’ entitlements.” An additional imperative speaks to DGCB taking action to ensure “policies are much more explicit and clear in their intent and purpose.” Numerous steps have already been taken to address this observation. The Director Compensation and Benefits Administration Policy Development cell was stood up on May 1, 2015, by realigning existing resources. Initially limited, the primary focus related to the relocation policy renewal initiative. On April 1, 2015, DCBA 5 was created as Director Compensation and Benefits Administration’s Compensation and Benefits policy development cell, leaving the other directorate staff free to focus on the day-to-day business of administration of current policy. With the recent increase to DGCB’s civilian baseline, an additional three Full-Time Equivalents will also be added to the section creating a five-person centre of excellence. Similar Full-Time Equivalent injections are underway to reinforce policy development in Director Pay Policy and Development and Director Pension and Social Programs.

The report notes that Compensation and Benefits policies are complex and difficult to understand and that this lack of clarity is a major cause of errors in the field. It is obviously a challenge to match simplification with clarity, given the complex nature of the Compensation and Benefits policy suite. To achieve clarity and eliminate ambiguity, policy documents will continue to

require sufficient detail which, inevitably, has the potential to lead to confusion on the part of the reader. That said, the second-order effect of an overly complex and detailed policy regime is that it significantly reduces the flexibility regarding benefit application. Clearly, a careful balance must be struck. To facilitate achieving that equilibrium, DGCB policy development staff have embarked upon the Policy Analyst Toolbox training offered by Director General Military Personnel to enhance their policy development skills, promote clarity and improve policy integration across all CMP lines of operation.

Leadership and experienced supervision at the Records Support Unit level also have a role to play in clarifying policy interpretation. The key is enhancing Logistics Officer (Human Resource, in particular) and Resource Management Support Warrant Officer / Master Warrant Officer / Chief Warrant Officer education and training. Clerks must be proficient in process application and, to an extent, in policy explanation. Most importantly, a knowledgeable Officer and Non-Commissioned Officer cadre would not only address the gaps identified by the audit, it would also provide a mechanism to enhance the professional development of tactical level clerks (i.e., train the trainer). Efforts to enhance the Logistics Human Resource / Resource Management Support occupations are discussed later in the Management Action Plan.

DGCB has an ambitious work plan to modernize and enhance Compensation and Benefits policies. The review of CBI 205 (Allowances) was recently completed. Additionally, work has commenced to review/rationalize environmental allowances. Similarly, the initial review of the CAF Leave Policy Manual is complete. This introduced clearer language, improvements/clarifications, and greater flexibility for approving authorities. The next step of this initiative will incorporate improvements and changes that require Queen's Regulations and Orders and other regulatory amendments. Completion is anticipated by December 2015.

Finally, since the launch of Op Resolution, and the changes to the *National Defence Act* that took effect on June 1, 2014, DGCB has made significant progress streamlining internal processes with a view to: a) ensuring grievances received post June 1, 2014, are processed within the four-month timeline; and b) processing backlog files as soon as practicable. Additional Full-Time Equivalents (both full-time and temporary) were provided by CMP. Concurrently, DGCFGA has provided surge personnel to assist. CMP also obtained Vice-Chief of Defence Staff approval for additional Reserve Force augmentation through to November 2016. Throughput has improved markedly. Last June, Compensation and Benefits Grievance Section had a backlog of 249 grievances, 192 of which were older than four months. Currently, they are processing 76 active grievances with only 31 being older than four months. Assuming a steady flow of inbound grievances, and based on historical intake, it is anticipated that the Grievance Section will be at or above 80 percent file compliance by November 1, 2015. Of equal importance, as the efforts pertaining to policy development mature, a reduction in the number of grievances is expected over the long term.

**OPI: CMP**

**Target Date:** December 2016



## Summary

Management Action	Target Date
DCBA 3-5 Policy Development cell stood up by realigning existing resources.	May 1, 2015
Completed Step 1 of the CAF Leave Policy Manual review.	December 1, 2014
CBI 205 (Allowances for Officers and Non-Commissioned Members) review complete.	June 30, 2015
Director of Compensation and Benefits Administration 5 stood up as Director of Compensation and Benefits Administration's Compensation and Benefits separate policy development cell. New resources earmarked, staffing ongoing.	April 1, 2015
Review CBI 204 (Pay Policy for Officers and Non-Commissioned Members).	December 2015
Step 2 of CAF Leave Manual review (Queen's Regulations and Orders amendments).	December 31, 2015
Grievance backlog eliminated.	November 30, 2015
Holistic review of allowances complete.	December 31, 2016

**Table A-1. Summary of Management Action Plan for Recommendation #1.** This table illustrates the summary of the management action plan that addresses the first recommendation, along with the target dates.

## Communication

### ADM(RS) Recommendation (Moderate Significance)

- CMP should develop and implement a comprehensive communications strategy to ensure a consistent format and an effective dissemination process of benefit policy information and decisions.

## Management Action

Concur. Integral to the effectiveness of the CAF compensation and benefits framework is a robust communications and branding strategy. In support of the strategic imperative of attracting, retaining and motivating top talent, an employer branding strategy will ensure high motivation and will help align members' vision and values with those of the organization. As a result, the recommendation has been included in the last two DGCB Business Plan submissions. The "lack of a comprehensive strategic communications plan for compensation and benefits" was identified as an external (to CMP) Weakness and an Opportunity: "DGCB is well positioned to develop and execute a strategic communications plan that will assist in diluting the negative impact of recent policy changes." Strategic Communications and a Branding Strategy remain two of our



main priorities. DGCB has been proactive in this regard. A communications strategy is currently in draft. Finalization and alignment within CMP are the next steps. Given recent baseline adjustment, the intent is to dedicate specific resources to this initiative within FY 2015/16. This includes look and feel, but also outreach to both members (via various media) and Base/Wing Admin and Comptroller staff. Further, DGCB will review, assess and develop compensation-and-benefits-related branding options that will assist the CAF in providing a robust employer of choice profile that will positively impact recruitment, retention and motivation objectives. This effort will be synchronized across Military Personnel Command staff as part of the Total Rewards Model/Framework for the CAF.

Note: Regarding the communication of policy, it is agreed there are too many and (occasionally) contradictory sources (Queen’s Regulations and Orders, CBI, Canadian Forces Temporary Duty Instructions, leave and Integrated Relocation Policy manuals, CANFORGENs, CFAOs, unofficial social media sites, etc.) While efforts will be made to streamline the Compensation and Benefits policy suite to the extent possible, this approach must be tempered with prudence. It is essential that such action not create another “aide-memoire” situation similar to that of 2011. Such an undertaking may also be resource-intensive and less beneficial than the development of clear policy in the first instance. Policy changes are clearly communicated via CANFORGENs and through the various networks. Policy information is contained in the relevant source documents.

**OPI: CMP**

**Target Date:** June 2016

**Summary**

Management Action	Target Date
Establish and staff Compensation and Benefits Communications Manager.	April 1, 2016
A communications strategy is currently in draft within DGCB. Finalization and alignment within CMP are the next steps. This includes look and feel, but also outreach to both members (via various media) and Base/Wing Admin and Comptroller staff.	June 30, 2016

**Table A-2. Summary of Management Action Plan for Recommendation #2.** This table illustrates the summary of the management action plan that addresses the second recommendation, along with the target dates.

**Risk Management**

**ADM(RS) Recommendation (Moderate Significance)**

- CMP should develop a formal risk management strategy related to compensation and benefits.

## **Management Action**

Concur, although that is not to say there are not risk management strategies already in place. ADM(RS) identified two areas where risk management needs to be improved:

1) in the policy development phase (to help prevent unclear policies from being implemented); and 2) in the policy administration phase (to ensure benefits are being administered as intended). With respect to policy development, and in light of the above noted efforts, policies are reviewed in great detail and developed with the aid of Directorate Law staff and other stakeholders including the Environmental Chiefs of Staff to the extent possible. For instance, DGCB creates evidence-based policy in coordination and cooperation with TB Secretariat. Risk assessment, cost– benefit analysis and intended/unintended consequences all form part of the package of evidence that goes forward for approval.

With respect to policy administration, the CAF relocation policy administration is closely reviewed by several levels and is centrally audited, thereby ensuring near-consistent application across the CAF. In contrast, the administration of CBI benefits is not monitored as closely. The responsibility for monitoring, auditing and consistent application is left to the Record Support Units that administer the benefits, with occasional higher Headquarters audits and SAVs / Staff Inspection Visits being conducted. For example, Director Military Pay and Allowance Processing conducts SAVs on a three-year rotation with a focus on fiduciary compliance. While important, that is only part of the equation – the other is the Human Resource component which also involves the Level 1s. Regardless, it is recognized that a more proactive methodology is needed.

A multi-pronged approach will be adopted to address this situation. First, using additional resources made available as a result of the recent DGCB baseline increase, a new position responsible for both risk and performance management will be created. Once in place, that individual will be responsible for developing a Compensation and Benefits risk management framework that incorporates both business objectives (i.e., output) and associated risk. The resultant product will be reviewed within DGCB at least quarterly and adjustments made accordingly. Moreover, risk management shall be included in the policy development and review process. Finally, the largest risk confronting DGCB relates to ensuring that assigned fiduciary responsibilities are met. To address that situation, almost half of the division's recent 57 Full-Time Equivalent baseline increase will be allocated to Military Pay and Accounts Processing directorate. Once fully staffed, DGCB will pursue increased funding via the business planning process to increase the frequency and scope of SAVs.

**OPI: CMP**

**Target Date:** October 2016

## Summary

Management Action	Target Date
Establish and staff Compensation and Benefits Risk and Performance Management position.	April 1, 2016
Draft/finalize Risk/Performance Management Framework.	October 2016
Establish and staff Director Military Pay and Allowances Processing positions (progressively).	March 31, 2017

**Table A-3. Summary of Management Action Plan for Recommendation #3.** This table illustrates the summary of the management action plan that addresses the second recommendation, along with the target dates.

## Controls

### ADM(RS) Recommendation (High Significance)

4. CMP should develop streamlined and comprehensive procedural guidance and update formal training of pay office personnel to reflect all areas of responsibility and ensure that regular oversight of key controls is effective.

## Management Action

While efforts will be made to streamline the Compensation and Benefits policy suite to the extent possible, this approach must be tempered with prudence not only (as mentioned previously) to avoid a repeat of the unintended consequences of the 2011 “Aide Memoire,” but also to avoid needless duplication of work being undertaken elsewhere. The future of military compensation and benefits hinges upon the Military Personnel Management Capability Transformation Project also known as Project Guardian. Besides introducing a new Human Resource and Pay Information Technology system, this complex initiative will “streamline business processes and procedures” and includes a mandate to reform compensation and benefits management in line with the Government of Canada’s Treasury Board Pay Administration Model. Concurrently, Military Personnel Management Capability Transformation will also be required to adopt the Policy on Internal Controls as directed by TB which will raise the level of certification required for financial authority. Scheduled for completion in 2020, the Project Guardian initiative will effectively harmonize all policies and procedures into a single, robust, accurate and integrated online tool, thus alleviating the need for a single manual as recommended by the audit team.

In the interim, two actions are planned. First, the ongoing policy modernization effort will go a long way towards addressing many of the observations related to the wide range of complex reference materials referred to in the audit report. This initiative is viewed as DGCB’s centre of gravity and is being pursued as a matter of priority. Next, where possible and appropriate, DGCB will consolidate and coordinate those updates into A-PM-245-001/FP-001, the Military Human Resources Records Procedures publication managed by the Military Personnel Management Capability Transformation Policy and Procedures Team Leader. Besides helping to consolidate the Compensation and Benefits policy

suite, such action will reinforce and ultimately expedite the Military Personnel Management Capability Transformation initiative.

The level of training and quality of support provided by both pay/finance and Human Resources personnel will be enhanced as a result of the ongoing Resource Management Support Clerk Occupational Analysis. After extensive examination, the Managing Authority for the Resource Management Support Clerk trade recently endorsed a proposal to split the trade into two occupations, one focused on Financial Services and the other on Human Resources administration. This will enable personnel within each occupation to specialize in their respective areas, thus improving both the administration and oversight of Compensation and Benefits administration. The Military Employment Structure Implementation Plan is scheduled for approval in August 2015 with implementation set for March 31, 2016. This will take three to five years to complete. Recognizing the circumstances which sparked the Occupation Analysis and which were further underscored in the ADM(RS) audit, training improvements have been prioritized. As such, work to develop separate Finance and Human Resource Quality Standard Training Plans will commence in September 2016 with completion estimated in the February 2016 time frame. Although too early to quantify with precision, it is anticipated that some conversion training will be required. Tentative training initiation is projected during the summer/fall period of 2016.

To enhance control mechanisms, the Director Military Pay and Allowances Processing SAVs team was tasked to conduct an analysis of all SAVs undertaken since they were reintroduced in 2008. The objective of that analysis was to verify the quality of pay process execution and to identify trends. The results generally reinforced ADM(RS) audit observations regarding the requirement to enhance controls. Accordingly, Director Military Pay and Allowances Processing has commenced updating Military Pay Administrative Instructions and publishing them on the Directorate website. Notifications of these updates are directed to pay administration staff at the unit level. Concurrently, as new instructions replace outdated directives, Assistant Deputy Minister (Finance) is requested to cancel corresponding elements of the Financial Administration Manual. The next step is to embed the new pay procedures in the A-PM-245-001/FP-001 – Military Human Resources Records Procedures publication. This is linked to Project Guardian and must be completed prior to the pay solution rollout in 2018.

Director Military Pay and Allowances Processing has also tasked the SAV team to enhance ongoing efforts to ensure that required financial controls are in place. This includes (inter alia):

- a. One hundred percent verification of all high-risk transactions.
- b. Verifying the Delegation of Authority (by Assistant Deputy Minister (Finance)) provided to certain Commanding Officers to authorize various transactions such as promotion, payment of unused leave and terms of service.
- c. Verification of Section 34 by Unit/Pay Office and Section 34 Certification by the Pay Accounts Officer / Commanding Officer.

The cumulative result of the initiatives outlined above will include not only improved control of military compensation and benefits administration, but also enhanced services to the men and women of the CAF.

**OPI:** CMP

**Target Date:** December 2017

## Summary

Management Action	Target Date
Approve Financial Services / Human Resource Administration Military Employment Structure Implementation Plan.	August 2015
Complete Financial Services / Human Resource Quality Standard Training Plans development.	February 2016
Commence Military Employment Structure Implementation Plan implementation.	March 31, 2016
Commence Financial Services / Human Resource Administration trade conversion training.	Summer/Fall 2016
Complete Compensation and Benefits policy suite consolidation.	December 31, 2017
Monitor financial controls.	Ongoing

**Table A-4. Summary of Management Action Plan for Recommendation #4.** This table illustrates the summary of the management action plan that addresses the second recommendation, along with the target dates,

## Annex B—Audit Criteria

### Criteria Assessment

The audit criteria were assessed using the following levels:

#### Assessment Level and Description

Level 1: Satisfactory

Level 2: Needs Minor Improvement

Level 3: Needs Moderate Improvement

Level 4: Needs Significant Improvement

Level 5: Unsatisfactory

### Criteria

1. A clear governance structure is established and documented to ensure good management of Compensation and Benefits so that CAF members receive their entitled remuneration.

**Assessment Level 4.** Not all elements of a clear governance structure are established and documented to ensure good management of Compensation and Benefits so that CAF members receive their entitled remuneration. Policy and communication instruments need significant review and improvements in order to provide clear guidance and direction for the administration of compensation and benefits.

2. CMP adequately and effectively manages the risks related to the administration of compensation and benefits to ensure prudent and good stewardship of public funds.

**Assessment Level 3.** The risks related to the administration of compensation and benefits are not adequately and effectively managed to ensure prudent and good stewardship of public funds. Risks are identified in the annual business planning process; however, the mitigation strategy for the key risks needs to be implemented.

3. Documented controls are in place to manage the risks related to the pay administration and ensure compliance with applicable policies, financial management and legislation.

**Assessment Level 3.** Controls are not effectively used to ensure compliance with applicable policies and financial management legislation. Control procedures are in place but some control activities are not always performed by pay staff. Procedures and training require improvement to ensure that pay transactions and their impact are clearly understood and in compliance with applicable policies.



## Sources of Criteria

Treasury Board Secretariat, Office of Comptroller General; Internal Audit Sector: Audit Criteria Related to the Management Accountability Framework: A Tool for Internal Auditors; March 2011.

The Institute of Internal Auditors Research Foundation: Auditing Compensation and Benefits Programs; 2009

Audit Criteria Area	Audit Criteria Description	Reference to Criteria
Governance	A clear governance structure is established and documented to ensure good management of Compensation and Benefits and CAF members receive their entitled remuneration.	MAF: AC-1 to AC-4; CFS-5; G-1,G-2, G-5, G-6; PP-1, PP-2 PPL-4,  IIA: Assignment of Authority and Responsibility; Human Resources Standards; Information and Communication Flow
Risk Management	CMP adequately and effectively manages the risks related to the administration of compensation and benefits to ensure prudent and good stewardship of public funds.	MAF: RM-1, RM-2, RM-4, RM-5, RM-6, RM-7;  IIA: Risk Management and Philosophy; Risk Checklist
Controls	Documented controls are in place to manage the risk related to pay administration and ensure compliance with applicable policies, financial management and legislation.	MAF RM 3; PP-3; ST-7, ST-10, ST-11, ST-13, ST-14, ST-18, ST-19,  IIA: Board of Directors and Audit Committee Activities; Risk Checklist

**Table B-1. Audit Criteria Related to the Management Accountability Framework, and The Institute of Internal Auditors Research Foundation: Auditing Compensation and Benefits Programs.** This table links the sources of criteria with the criteria used in this audit.