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Audit of the Human Performance Research and Development Funding Process

November 2014

7055-21-25 (ADM(RS))



Canada 

Table of Contents

Acronyms and Abbreviations	i
Results in Brief	ii
Overall Assessment	ii
Findings and Recommendations	ii
1.0 Introduction	1
1.1 Background	1
1.2 Audit Objectives	1
1.3 Audit Scope	1
1.4 Methodology	2
1.5 Description of Program	3
2.0 Findings and Recommendations	4
2.1 HP R&D Requirements Planning and Budgeting	4
2.2 HP R&D Requirements Planning—Contingency Funding	5
2.3 Business Plan Submissions and Approvals	7
2.4 Monitoring and Internal Controls	8
2.5 Risk Management	9
3.0 Conclusion	11
Annex A—Management Action Plan	A-1
Annex B—Audit Criteria	B-1
Annex C—Summary of the 2007 CMP Study of the HP R&D Funding Process: Actions Required and CFPSC's Responses	C-1



Acronyms and Abbreviations

ADM(Fin CS)	Assistant Deputy Minister (Finance and Corporate Services)
ADM(HR-Mil)	Assistant Deputy Minister (Human Resources – Military)
CAF	Canadian Armed Forces
CANSOFCOM	Canadian Special Operations Forces Command
CFMWS	Canadian Forces Morale and Welfare Services
CFO	Chief Financial Officer
CFPSA	Canadian Forces Personnel Support Agency
CMP	Chief Military Personnel
CRS	Chief Review Services
DFIT	Director of Fitness
DGMP	Director General Military Personnel
DGMWS	Director General Morale and Welfare Services
DND	Department of National Defence
DRAP	Deficit Reduction Action Plan
ECF	Employer Costs Factor
FY	Fiscal Year
HP	Human Performance
L0	Level Zero
L2	Level Two
MW	Morale and Welfare
NPF	Non-Public Funds
NPP	Non-Public Property
OFS	Occupational Fitness Standard
OPI	Office of Primary Interest
O&M	Operations and Maintenance
PSP	Personnel Support Program
R&D	Research and Development
SLA	Service Level Agreement
VCDS	Vice Chief of the Defence Staff



Results in Brief

In 1996, the Defence Management Committee introduced a new Morale and Welfare (MW) concept that was to be implemented within the Canadian Armed Forces (CAF). Vice Chief of the Defence Staff (VCDS) Instruction 3/96 defined the relevant Personnel Support Programs (PSP) and the level of services to be provided by a personnel support agency. It also established the mechanisms necessary to ensure the appropriate allocation of public funding in the context of this Alternative Service Delivery Framework.

Public MW programs are delivered in various ways, one being through the use of Non-Public Funds (NPF) employees, whose salaries and overhead costs—although reimbursed by the public fund—are subject to the Non-Public Property (NPP) accountability framework. As part of the PSP Director of Fitness (DFIT) organization, the activities of the Human Performance (HP) Research and Development (R&D) group are categorized as public MW programs; as such, they are fully funded by the public. The Policy Governing Operation of Personnel Support Programs in the Canadian Forces – Volume 1 (A-PS-110-001/AG-002) prescribes the maximum levels of public support that may be authorized by the approving authority in support of MW programs and the NPP funding for public MW programs. Public funding is subject to approval in the annual departmental business planning process.

An internal audit of the HP R&D funding process was conducted in accordance with the Chief Review Services (CRS) Non-Public Property Military and Family Support Audit Group Work Plan for fiscal year (FY) 2013/14.

The purpose of this audit was to provide assurance to the Chief of the Defence Staff of the robustness of the frameworks and oversight mechanisms and the risk management processes and practices put in place by management to ensure that the HP R&D funding process is efficient, economic, and effective.

Findings and Recommendations

HP R&D Requirements Planning and Budgeting. The level of detail observed in the five-year HP R&D DFIT business planning documents was not sufficient and deficiencies were observed regarding resource requirement planning capabilities. HP funding requirements were based on the previous year's allocation, rather than by including the identified needs of each business activity and raising them to the overall budget request. If detailed resource requirements are not communicated to business planners and decision makers in a timely fashion, there is a risk that funding allocations will not be properly aligned.

It is recommended that Director General Morale and Welfare Services (DGMWS)/DFIT should ensure detailed annual budgets are prepared by HP R&D and that the budget requirements are

Overall Assessment

Certain deficiencies identified in the 2007 Chief Military Personnel (CMP) Study of the HP R&D funding process have not been adequately addressed. This has resulted in the misalignment of HP R&D's resource requirements and funding allocations for FY 2014/15.



submitted to Canadian Forces Morale and Welfare Services (CFMWS) business planning staff in time to be validated and included in the CFMWS Level Two (L2) business plan.

HP R&D Requirements Planning – Contingency Funding. A review of the L2 business plan submission for FY 2014/15 identified a \$210,000 variance between the established salary and employee cost factor requirements and actual funds requested. Until it was subsequently substantiated during the audit, and without linkages to approved business plans, this 22 percent variance was deemed to be contingency funding.

It is recommended that CMP take measures to ensure that CFMWS regularly validates the requirements underlying its L2 business plan submissions.

The \$210,000 variance was ultimately attributed to salary and employee cost factor expenses tied to two positions that were included in an organizational structure not properly aligned with the business planning of HP R&D activities. These funds were available in the L2 business plan because a baseline funding approach was utilized rather than linking planned activities and budgets to funding requests.

It is recommended that CMP assess the merits of performing a complete review and reset of the CFMWS corporate account baseline using a risk-based methodology in order to ensure that resource requirements are properly aligned with funding allocations.

Business Plan Submissions and Approvals. The Service Level Agreement (SLA) put in place by Chief PSP and Director General Military Personnel (DGMP) for HP R&D Occupational Fitness Standard (OFS) activities expired on March 31, 2014. DGMP submitted OFS activities as a Deficit Reduction Action Plan (DRAP)¹ efficiency measure, although the only portion of activities that would have been eligible for this measure was the follow-on work. During the business planning process, such work was deemed a low priority and was subsequently not supported. In relation to ongoing OFS research, the funding process that was used could result in an inability by CMP to clearly show which specific activities were impacted to achieve its directed level of DRAP operating efficiencies.

It is recommended that CMP confirm its OFS DRAP commitments and clearly identify potential offsets, if necessary.

Monitoring and Internal Controls. CFMWS performs HP R&D activities as part of its publicly-funded programs in the context of the Alternative Service Delivery Framework of the Department of National Defence (DND). CMP needs to ensure that any cash managed or reallocated resources are only spent on CMP-approved and publicly reimbursable activities that are properly aligned with DND/CMP priorities. Publicly funded Staff of the NPF that deliver services on behalf of DND represent nearly 80 percent of allocated funds, which to a certain extent may be cash managed throughout the year. CMP's lack of visibility over CFMWS's cash

¹ The DRAP was introduced in the 2011 federal budget as part of a series of government-wide spending reviews. It is a one-time review of direct program spending and constitutes the federal government's principal means for eliminating the federal budget deficit by 2014/15. Its focus is on improving the efficiency and effectiveness of government operations and programs. The government-wide target for savings by 2014/15 is \$4 billion.

management activities is impeding its ability to verify that reallocated funds are used for their intended purpose.

It is recommended that CMP strengthen the governance and internal control frameworks by providing CFMWS with clearly documented guidance pertaining to reporting thresholds and program scope in relation to CFMWS's corporate account cash management activities.

Risk Management. HP R&D has identified key risks and has developed and implemented adequate responses to manage these risks. However, a more inclusive approach could have facilitated the strategy and supported a business case to establish an OFS Centre of Excellence.

It is recommended that CMP ensure that, as part of the CMP L2 business planning process, DGMWS prepare a business case in support of the proposal to establish an HP R&D Centre of Excellence.

Note: For a more detailed list of CRS recommendations and the management response, please refer to [Annex A](#)—Management Action Plan.



1.0 Introduction

1.1 Background

The Assistant Deputy Minister (Human Resources – Military) (ADM(HR-Mil)) Comptroller issued a call letter requesting that its L2 organizations identify potential areas for review and/or study by the Management Advisory Services section. In response to this request, the Chief Financial Officer (CFO) of the Canadian Forces Personnel Support Agency (CFPSA)² put forward four potential areas for study, one of which was the HP R&D funding process.

The CFO, CFMWS stated that the funding process for HP R&D requirements did not function well since fund availability, R&D resource availability, and R&D outcomes did not match. Also, contrary to *Financial Administration Act* requirements, funds were being deposited into trust accounts by HP R&D clients for work that was to be completed the following year.

The expectation was that an ADM(HR-Mil) study would serve to review this situation and provide a recommended solution. The CMP³ Comptroller's Study report, issued on May 27, 2007, required CFMWS to complete five action items (refer to [Annex C](#)). This included the preparation and submission of a business case for the annual business plan complete with details pertaining to HP R&D's funding requirements for staff, equipment, and consumables. In addition, the study concluded that, among other things, the CFMWS budget section and HP R&D needed to improve their management of annual business plan inputs and quarterly analyses and forecasting.

1.2 Audit Objectives

This audit had the following two objectives:

- to provide an assessment of the actions taken by the Chief Executive Officer, CFMWS, in response to the Study of PSP HP R&D Funding Process that the CMP Comptroller's Management Advisory Services section conducted in 2007; and
- to provide independent assurance that existing controls over the PSP HP R&D funding process are sufficient.

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

1.3 Audit Scope

The scope included the following components:

- a follow-up of the 2007 CMP Management Advisory Services study. Note that action required relating to CFMWS Employer Costs Factor (ECF) has been excluded from the scope of this audit; and

² CFPSA has been renamed CFMWS.

³ The ADM(HR-Mil) organization was renamed CMP effective April 1, 2006.

- an assessment of the sufficiency of controls over the PSP HP R&D funding process, which included an assessment of governance, management controls, and risk management.

1.4 Methodology

The approach included the following:

- planning phase meetings with client and key stakeholders in relevant organizations;
- conducting preliminary research, reviewing existing processes, and developing an audit program;
- undertaking preliminary interviews, gathering information, and refining the audit scope;
- conducting in-briefs with CMP Comptroller and DGMWS (discussion of the audit objectives, criteria, scope, methodology, and timeline);
- conducting phase follow-up interviews, gathering additional information, performing analyses, and recording observations;
- preparing a summary of observations and associated summary sheets; and
- debriefing personnel from CMP and DGMWS.

Figure 1 describes the steps used to assess the sufficiency of controls in place for the HP R&D funding process.

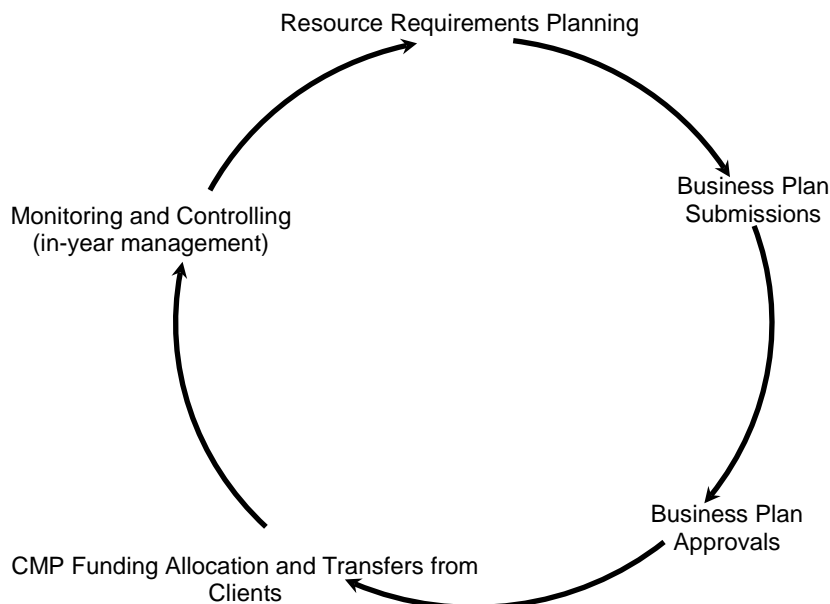


Figure 1. Funding Process. This figure represents the five primary components of an annual funding process cycle.

Governance and internal controls were blended into the assessment of the HP R&D funding process, as described in Figure 1. Decision-making and supporting documentation for each component of the planning process were examined. The funding process was also reviewed to determine the sufficiency of internal controls for each component of the model.

1.5 Description of Program

PSP is an operating division within CFMWS, and DFIT is a directorate within the PSP division. Since the 2008 launch of the Canadian Forces Health and Physical Fitness Strategy, DFIT has been specifically focused on the research, development, delivery, and evaluation of physical fitness programs, as well as on the delivery and evaluation of health promotion programs for the CAF. The DFIT HP R&D capability is provided by a dedicated team of scientists and researchers primarily engaged in the following activities:

- developing DND/CAF policies pertaining to occupational physical performance readiness standards and related training and education programs;
- developing physical fitness selection and maintenance tests and implementing evaluation protocols;
- developing physical fitness selection and maintenance standards, and assessment centres, in compliance with CAF policy, Canadian human rights legislation and bona fide operational requirements;
- developing physical fitness training programs in support of CAF physical fitness selection and maintenance standards; and
- applying and complying with appropriate risk management and occupational health and safety practices.



2.0 Findings and Recommendations

2.1 HP R&D Requirements Planning and Budgeting

HP R&D funding requirements, and their inclusion in the CFMWS L2 business plans, should be validated by preparing detailed annual budgets.

Prior to the 2007 CMP Study of PSP HP R&D Funding Processes, the CFO CFMWS expressed concerns surrounding non-compliance with the *Financial Administration Act*, due to funds held in trust for work to be completed the following year. The CFO CFMWS concluded that transferring the funds for HP R&D activities to a public CFMWS corporate account would resolve the compliance issues. A review of the Assistant Deputy Minister (Finance and Corporate Services) (ADM(Fin CS)) Notional Database⁴ confirms that the issue of clients placing pre-payments in trust, which contravenes the *Financial Administration Act*, has been resolved.

The Study identified gaps in the communication of HP R&D business planning priorities for its publicly funded activities and acknowledged that resource constraints prevented HP R&D from meeting its planning and reporting duties. Recommendations were made for CFMWS to continue with improvements to its management of annual business plan input, quarterly analyses, and forecasting.

This audit assessment began with a review of the HP R&D budgeting process depicted in Figure 1. Consultations with responsible CFMWS stakeholders determined that HP funding requirements were based on the previous year's allocation, rather than by including each business activity's identified needs and raising or factoring these into the overall budget request. Going forward, HP R&D intends to realign their DFIT business plan to CFMWS's L2 business plan in order to capture necessary requirements.

During the business planning process, responsible managers propose budget requirements to senior management for their respective lines of operation. Once available, senior management then allocates the funds accordingly. Senior management understands the requirements of the funding process. However, as the FY 2013/14 and 2014/15 budgets were not available when requested, assurance of completion and compliance with the process cannot be provided.

The level of detail observed in the five-year HP R&D DFIT business planning documents was not sufficient. Business plans were developed in a manner that aligned priorities with the mandate of the directorate. They did not justify budgets, recurring detail, or unfunded resource requirements in a format that reflects business planning. Assurance cannot be provided that the mechanisms in place adequately validate underlying resource requirements.

Interviews with key stakeholders from HP R&D and CMP and a review of relevant supporting documentation indicated deficiencies surrounding resource requirement planning capabilities

⁴ ADM(Fin CS) Director Budget maintains a Notional Database, which is a tool used to track and manage future year resources.

within HP R&D. Ensuring that a consolidated budget is prepared annually and that it incorporates all salary and benefits, equipment support, and other operations and maintenance (O&M) funding needs would satisfy this requirement. DFIT requires a mechanism to ensure the submission of these funding requirements to the CFMWS business planning staff for validation and inclusion in the CFMWS L2 business plan submission to CMP. If detailed resource requirements are not communicated to business planners and decision makers in a timely fashion, there is a risk that funding allocations will not be aligned properly with resource requirements and DND/CMP priorities.

CRS Recommendation

1. DGMWS/DFIT should ensure that detailed annual budgets are prepared by HP R&D and that the budget requirements are submitted to CFMWS business planning staff in time to be validated and included in the CFMWS L2 business plan.

OPI: CFMWS/DFIT

2.2 HP R&D Requirements Planning—Contingency Funding

Assurance cannot be provided that all funding requested in the L2 business plan submission for HP R&D can be linked to clearly identifiable requirements.

HP R&D Centrally-Funded Activities—Disproportionate Contingency Funding

In its FY 2014/15 L2 business plan submission, CFMWS requested \$1,169,000 to fund the salaries and benefits of nine NPF positions, as well as O&M of \$218,000 to support HP R&D activities. To validate the underlying requirement for the requested funding, a review was undertaken of additional details pertaining to the nine NPF positions noted in the HP R&D business plan submission. Information provided included the salaries and benefits for these nine NPF positions, which are funded from the CFMWS corporate account.

During the budget and business planning process, salary costs are usually predictable, and any residual contingency funding for unforeseen events during the coming year should be minimal. The employer's costs relating to employee benefits may vary during a specific year, and CFMWS applies a 26 percent ECF⁵ to all salary estimates. A review of the mentioned L2 business plan submission for FY 2014/15 revealed a \$210,000 variance between established salary and ECF requirements for the nine noted positions and what was requested in the L2 business plan, as mentioned in the previous paragraph. Since assurance cannot be provided that this 22 percent variance is linked to identifiable requirements, it is therefore viewed as contingency funding.

Validation of Requirements

The use of a baseline approach for determining the HP R&D funding request for FY 2014/15 business planning purposes without proper validation of the underlying requirements resulted in a misalignment of funding allocations and resource requirements.

⁵ An ECF of 26 percent represents a long-term average estimate for employee benefits costs.



Management provided additional documentation that identified a proposed 11 positions, rather than the initial nine that were included in the business planning submission. The variance was attributed to salary and ECF costs associated with the additional positions, although there were discrepancies between the organizational structure, HP R&D activities, and requirements outlined in the submitted business plan. Management stated that the L2 business plan submission for FY 2014/15 was based on a baseline funding approach, rather than the provision of a detailed budget to facilitate the request. The \$218,000 allocated to O&M was also estimated using the baseline funding approach and could not be validated against a detailed budget.

As part of this audit study, the terms and conditions of the following two SLAs created to govern HP R&D activities for clients were reviewed:

1. SLA between CFMWS PSP Division and Canadian Special Operations Forces Command (CANSOFCOM); and
2. SLA between DGMP and Chief PSP regarding the development of OFSs.

Reviews of these two SLAs demonstrated that CFMWS follows the resource requirements funding process described in Figure 1 when dealing with clients. As DGMP is also a CMP L2 organization, CFMWS, at least in that instance, was obliged to provide detailed requirements to support the HP R&D business plan funding requests.

In each SLA, the funding process described in Figure 1 was followed, albeit more strictly in the case of the first noted SLA. The HP R&D personnel requirements, including salaries, training and supplies, travel, and equipment, are clearly identified in both SLAs and supporting documentation. A list of each position and title is included along with the source of funding for each position. The terms of the SLAs require CFMWS to submit comprehensive business plan submissions to CANSOFCOM and DGMP. CFMWS is also required to prepare a detailed budget for the CANSOFCOM HP research team's O&M funding requirements. Had the same process been employed for HP R&D, CMP would have been able to demonstrate that it is providing a sound and robust stewardship function.

The identified process gaps relating to business plan submissions highlight the benefits that would be realized through CMP's more robust validation of requirements and oversight.

CRS Recommendations

2. CMP should take measures to ensure that CFMWS regularly validates the requirements underlying its L2 business plan submissions.

OPI: CMP

3. CMP should assess the merits of performing a complete review and reset of the CFMWS corporate account baseline using a risk-based methodology in order to ensure that resource requirements are properly aligned with funding allocations.

OPI: CMP



2.3 Business Plan Submissions and Approvals

CMP may not be able to clearly demonstrate achievement of its directed level of operating efficiencies because of the funding process employed in relation to ongoing OFS research.

Funding for Ongoing HP R&D OFS Activities

The SLA between Chief PSP and DGMP supporting the OFS project expired on the prescribed project end date of March 31, 2014. DGMP submitted the OFS activities as a DRAP efficiency measure, and this was accepted by CMP—the net effect of which was to reduce DGMP’s O&M budget accordingly. Future activities will also be regarded as acceptable DRAP efficiency reductions as long as they have continuing or recurring funding in place beyond FY 2014/15. Therefore, the submission of unfunded projects would not be considered to be acceptable DRAP efficiencies since there would be no demonstrable reduction in direct program spending.

Responsible stakeholders from CFMWS and CMP acknowledged that DRAP reductions must remain sustainable. That is, any activities proposed for elimination or rationalization cannot be reinstated after they are accepted unless some equivalent offsets are identified.

No continuing funding would have been in place to support the OFS project after its scheduled close-out on March 31, 2014. Therefore, the proposed OFS DRAP efficiency reductions would have had to be related to post-project activities. The audit study reviewed a copy of the DGMP L2 business plan submission for FY 2014/15 and identified the salaries for three full-time equivalents and associated O&M for follow-on OFS work as an unfunded \$354,000 pressure. During the CMP business plan review process, the request for funding for the remaining post-project OFS work was not supported and was described in supporting documentation as being a low-priority activity. The impact of not funding this research was assessed as minor.

Demonstrating Operating Efficiencies

It is important that CMP be able to clearly demonstrate which activities have been either eliminated or rationalized in order to achieve the directed level of operating efficiencies.

Management was asked to provide a status update for the three OFS full-time equivalents in question. Two of the OFS personnel had been retained within HP R&D and CFMWS by “cash managing” their salaries and benefits using public funding for a five-month period. In support of the decision to cash manage these salaries and benefits using public funding, DFIT provided additional evidence indicating that CMP is revisiting the decision to include the OFS funding as part of the CMP DRAP reductions. CMP also directed the Assistant CMP to obtain the collective inputs from the relevant CMP L2s, so that a final decision could be made. Although the funding in question has already been removed from CMP’s O&M budget, it is important that CMP be able to clearly demonstrate the specific activities that have been either eliminated or rationalized to achieve the directed level of DRAP operating efficiencies.

CRS Recommendation

4. CMP should confirm its OFS DRAP commitments and clearly identify potential offsets, if necessary.

OPI: CMP

2.4 Monitoring and Internal Controls

CMP's lack of visibility of CFMWS' corporate account activities is impeding its ability to demonstrate diligent stewardship of public resources.

Transparency of CFMWS' Cash Management Activities

HP R&D activities are part of the public programs that have been assigned to CFMWS in the context of DND's Alternative Service Delivery Framework. As such, it is important that the CMP Comptroller be able to verify that reallocated (cash managed) funds are used for CMP-approved and publicly reimbursable activities.

In-year resource reallocations (i.e., reallocations made at some point within a given fiscal year) are a common business practice and an important part of effective and efficient resource management. CMP Comptroller and business planning staffs acknowledged that CFMWS should be permitted a certain degree of flexibility to make such reallocations; that is, to cash manage minor corporate account surpluses so as to offset funding pressures in other areas within the same line of business. To strengthen internal controls, suitable oversight, and monitoring, mechanisms need to be established to ensure that reallocated resources are properly aligned with DND/CMP priorities.

The DND Tri-annual Review process is the primary mechanism to identify variances from plans resulting from such reallocations. The offices of the ADM(Fin CS) and the VCDS jointly issue a letter outlining the financial review process for each current fiscal year. These financial reviews focus on program progress, business planning issues, and in-year resource management. Their intent is to align cyclical forecasts with supplementary estimates to thereby facilitate better decision making. Level Ones are encouraged to disclose significant changes in their programs and funding allocations in order for the Department to react and plan accordingly.

The audit team analyzed CFMWS' financial review returns to CMP for FY 2013/14 and supported this study through interviews with CMP and CFMWS staff regarding previous years' financial review returns for publicly reimbursed salary and benefits funding. Those analyses showed that few surpluses have been declared. A review was also conducted of CFMWS' corporate accounts notional funding allocations that were provided to CFMWS by CMP for business planning purposes for the last three fiscal years. It showed that almost 80 percent of the total planning budgets were dedicated to the reimbursement of salaries and benefits for NPF employees. For example, the total corporate account's notional allocation for FY 2013/14 was \$70.54 million, and \$56.1 million (or 79.5 percent) of that total was dedicated to NPF employee salaries and benefits.



The results of these analyses demonstrated that it is essential for CMP Comptroller to maintain adequate oversight over all publicly funded NPF positions for two reasons. One is the significance of the salaries and benefits allocation as a percentage of CFMWS' total corporate account allocation, coupled with the considerable breadth of CFMWS' publicly reimbursable program base. The increased oversight would facilitate the internal control framework to function properly, and it would assist CMP to verify specifically which publicly reimbursable activities are being performed. Second, oversight could be further strengthened by providing CFMWS with clearer definitions for reporting thresholds, such as minor versus significant surpluses, and by defining cash management boundaries surrounding what can and cannot be cash managed.

CRS Recommendation

5. CMP should strengthen the governance and internal control frameworks by providing CFMWS with clearly documented guidance pertaining to reporting thresholds and program scope in relation to CFMWS' corporate account cash management activities.

OPI: CMP

2.5 Risk Management

HP R&D has identified, developed, and implemented adequate responses to manage risks. However, there are opportunities to further strengthen risk management practices.

Risk management is an important element of good governance. Risk is an expression of the likelihood and impact of an event to potentially influence the achievement of an organization's objectives. Organizations that manage risk well are more likely to achieve their objectives. Risk management includes the identification of an organization's risk tolerance, the assessment and ranking of higher-level risks, the linking of risks with strategic objectives and corporate priorities, and the application of resources to minimize, monitor, and control the probability and impact of risks.

HP R&D has identified its key risks and has developed and implemented adequate response strategies to address these risks. HP management identified risks associated with possible court challenges related to the standards that are set and explained that it periodically briefs senior leadership on these risks. Other risks derive mainly from the scientific nature of the work it conducts. Those risks could be injuries or death as part of maximal fitness testing during a study. As a best practice, HP R&D seeks to minimize risks by submitting proposed research protocols to Defence Research and Development Canada's Human Research Ethics Committee for formal review and approval. The submitted proposals include details pertaining to scientific method and risk response strategies for identified risks.

HP R&D Centre of Excellence Strategy Implementation

HP management identified the biggest risk to HP R&D to be the loss of key skills and corporate knowledge if DFIT were to lose the existing in-house OFS expertise. In an effort to mitigate this risk, a strategy has been developed that would serve to diversify the HP R&D customer base by establishing an OFS Centre of Excellence. As a valid risk response strategy, CFMWS should



have taken the proposed concept and its intended approach to CMP for consideration when the risk was first identified and ensured that adequate due diligence was performed to confirm that the proposed strategy is permissible under CFMWS' current mandate. DFIT advised that DGMWS is currently performing legal due diligence to ensure the feasibility of the establishment of an OFS Centre of Excellence within CFMWS. An important component of this due diligence is the preparation of a business case for presentation to the NPP Board that includes a detailed options analysis and clearly identifies all resource requirements and anticipated funding sources.

CRS Recommendation

6. CMP should ensure that, as part of the CMP L2 business planning process, DGMWS prepare a business case in support of the proposal to establish an HP R&D Centre of Excellence.
OPI: CMP



3.0 Conclusion

The report from the 2007 CMP Comptroller study identified a series of actions to be undertaken by CFMWS in response to the four areas of study identified by the CFO of CFMWS. One area was the HP R&D funding process. Since its publication, most issues have been resolved.

HP R&D's funding process and resource requirements planning is still a work in progress and needs to be strengthened. The audit team, therefore, cannot provide assurance that the existing controls over the process are sufficient. The following measures will ensure that the HP R&D funding process will be more efficient, economical, and effective:

- preparing detailed annual budgets for validating the underlying funding requirements and their inclusion in CFMWS L2 business plans;
- having CMP assess the merits of performing a complete review of the CFMWS corporate account baseline;
- ensuring that CMP confirms its OFS DRAP commitments and clearly identifies potential offsets, if any;
- having CMP provide CFMWS with clear guidance regarding reporting and visibility over its cash management activities; and
- ensuring that the HP R&D Centre of Excellence proposal is supported through CMP's L2 business plan from CFMWS.

A review of the SLAs currently in place demonstrates that CFMWS submitted comprehensive business plan submissions and clearly identified and linked funding requirements to its budget submissions for the respective SLAs. Applying this standard throughout HP R&D would strengthen its overall funding process. HP R&D risk management was also identified as a key strength for the organization in that adequate responses were developed to manage the risks identified.



Annex A—Management Action Plan

Resource Requirements Planning—Excessive Contingency Funding

CRS Recommendation

1. DGMWS/DFIT should ensure that detailed annual budgets are prepared by HP R&D and that the budget requirements are submitted to CFMWS business planning staff in time to be validated and included in the CFMWS L2 business plan.

Management Action

DGMWS/DFIT will submit its annual operational plan/budget to the CFMWS Business Planner for inclusion in the annual Public Business Plan, and timelines for the development of the operational plan will be amended to meet the CFMWS L2 Public Business Plan submission timeline. The DFIT operational plan will be used as input into the L2 CFMWS Public Business Plan.

OPI: CFMWS/DFIT

Target Date: June 2015

Alignment of HP R&D Resource Requirements and Funding Allocations

CRS Recommendation

2. CMP should take measures to ensure that CFMWS regularly validates the requirements underlying its L2 business plan submissions.

Management Action

A new Business Planning Tool is currently being used for employee validation (salaries, function, etc.). Modifications are being proposed to include NPP employees. This will ensure that all filled/vacant and funded/unfunded positions with corresponding salaries are aligned with functions. These modifications would be completed for the FY 2016/17 business plan submissions.

Discussions are currently proposed for the development of an SLA between CMP and CFMWS that would clearly identify the resources and requirements between CFMWS and CMP.

OPI: CMP/Comptroller

Target Date: August 2015

CRS Recommendation

3. CMP should assess the merits of performing a complete review and reset of the CFMWS corporate account baseline using a risk-based methodology in order to ensure that resource requirements are properly aligned with funding allocations.

Management Action

A Level Zero (L0) Corporate Baseline Review of all corporate accounts is currently underway. It is anticipated that the CFMWS C109⁶ will be conducted within the next two years. In the interim, CMP will continue to monitor CFMWS corporate account activity through a vigilant review of business plan submissions and Financial Review returns. Action Date: Until the L0 corporate account review is completed, annual reviews through the business plan and the departmental trimestral processes will be used to review and monitor this corporate account.

OPI: CMP/Assistant CMP

Target Date: August 2015

Cash Management of OFS Positions

CRS Recommendation

4. CMP should confirm its OFS DRAP commitments and clearly identify potential offsets, if necessary.

Management Action

NPP OFS DRAP reductions, which impact the FY 2015/16 business plan, are currently under CMP review. A decision on the OFS DRAP reduction commitments will be forthcoming, and potential offsets (if required) will be identified.

OPI: CMP/Assistant CMP

Target Date: March 2015

Monitoring and Control of DGMWS Cash Management Activities

CRS Recommendation

5. CMP should strengthen the governance and internal control frameworks by providing CFMWS with clearly documented guidance pertaining to reporting thresholds and program scope in relation to CFMWS' corporate account cash management activities.

⁶ C109 is the name of a specific corporate account.

Management Action

It is anticipated that this recommendation will be satisfied through the L0 Corporate Account Baseline Review of fund C109. Initial direction will be provided in the Business Plan approval letter of May 2015, and further direction will result from the Baseline Review activity.

OPI: CMP/Assistant CMP

Target Date: May 2015

Risk Management

CRS Recommendation

6. CMP should ensure that, as part of the CMP L2 business planning process, DGMWS prepare a business case in support of the proposal to establish an HP R&D Centre of Excellence.

Management Action

DGMWS will be directed to submit a business case to CMP on the proposed establishment of an HP R&D Centre of Excellence should external user pay demands continue to be received.

OPI: CMP/Assistant CMP

Target Date: Upon receipt of a user pay demand



Annex B—Audit Criteria

Objective

1. To provide an assessment of the actions taken in response to the Study of PSP HP R&D Funding Process that was conducted by the CMP Comptroller's Management Advisory Services in 2007.

Criterion

- The actions taken by CFMWS adequately address the concerns raised by CMP Comptroller in the 2007 study.

Objective

2. To provide independent assurance that sufficient controls exist over the PSP HP R&D funding process.

Criteria

- CFMWS has put in place sufficient controls over the HP R&D funding process.
- CFMWS HP R&D clearly understands its identifiable risks (including fraud, gross mismanagement, and waste) and has appropriate risk response strategies in place.



Annex C—Summary of the 2007 CMP Study of the HP R&D Funding Process: Actions Required and CFPSA's Responses

Action Required	Chief Executive Officer, CFPSA Response
CFPSA Finance shall prepare a briefing note to Comptroller CMP regarding the rationale for inclusion into CFPSA C109 funds, those currently provided by DND/CAF customers for PSP R&D costs.	Briefing note to CMP Comptroller: Unfortunately, the study only confirms that the R&D funding situation needs to be resolved and asks CFPSA to initiate the action that it thought it was initiating when the study was requested. We will now action as requested and prepare a briefing note to CMP.
HP R&D shall complete a business case for the annual business plan including analysis of ongoing C109 funding and project customer funding approaches for the special activities supporting Chief of the Air Staff, Chief of the Maritime Staff, other HP standards, and the updating of CMP CAF EXPRES standards. Staff, equipment and consumable requirements along with associated costs should be itemized in detail and their importance enunciated.	R&D business case: Our expectation was that the R&D study would largely address this requirement. CFPSA will now prepare a business case in conjunction with CMP Comptroller staff.
CFPSA shall implement any corrections directed by the Programme Management Board pursuant to the findings and recommendations of the VCDS/CMP report on the 20% ECF as it pertains to CFPSA.	CFPSA ECF: This action is outside the scope of this study and is not relevant to the R&D funding issue. Rather, it relates to all public-reimbursed staff of the NPF, Canadian Forces positions, through the CFMWS corporate account. This evaluation is currently underway within CFPSA, and the results will be staffed to Programme Management Board through CMP Comptroller in the fall of 2007.
CFPSA Finance shall increase the rigour of its business planning program. For example, it should explore template alternatives for business plan input and quarterly explanation/forecasting returns to the CFPSA budget section. In addition, CFPSA organizations should not be permitted to file "nil returns" during the business planning and quarterly review process. Furthermore, PSP R&D should document the requirement for a financial/administrative coordinator position.	Rigour of CFPSA business planning program: This action is also outside the scope of this study and is only tangentially relevant to the R&D funding issue. CFPSA exercises rigour and utilizes templates for its business planning process. All CFPSA divisions are required to submit a business plan. We will assign one of our financial developmental positions to the task of assisting PSP R&D management in exercising more rigour in planning and budgetary processes.
HP R&D should develop the particular management skill of describing in detail its responsibilities and projects at their level of importance to preclude unnecessary funding constraints.	R&D management skills: These recommendations are taken under advisement and will be pursued to the extent possible within resources available.

Table C-1. Summary of the 2007 CMP Study of the PH R&D Funding Process: Actions Required and CFPSA's Responses. This table summarizes the actions required and CFPSA's Responses to the Summary of the 2007 CMP Study of the HP R&D Funding Process.

