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Audit of Supporting Information for the Reserve Force Pension Plan



October 2020

1259-3-0051 (ADM(RS))

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Acronyms and Abbreviations

ADM(Fin)	Assistant Deputy Minister (Finance)
ADM(RS)	Assistant Deputy Minister (Review Services)
ARA	Accountability, Responsibility and Authority
CAF	Canadian Armed Forces
CFO	Chief Financial Officer
CMP	Chief of Military Personnel
Comd CA	Commander of the Canadian Army
Comd RCAF	Commander of the Royal Canadian Air Force
Comd RCN	Commander of the Royal Canadian Navy
DMPAP	Director Military Pay and Allowances Processing
DND	Department of National Defence
DOA	Delegation of Authority
HR	Human Resources
MPAI	Military Pay Administrative Instructions
OAG	Office of the Auditor General
OCI	Office of Collateral Interest
OPI	Office of Primary Interest
PSPC	Public Services and Procurement Canada
RFPP	Reserve Force Pension Plan
RPSR	Revised Pay System for the Reserves
SAV	Staff Assistance Visit
SIV	Site Inspection Visit

Results in Brief

The Reserve Force, also known as the Reserves, is a voluntary force that augments, sustains and supports the Regular Force of the Canadian military.

In 2007, the Department of National Defence (DND) and the Canadian Armed Forces (CAF) introduced the Reserve Force Pension Plan (RFPP) to enhance the recruitment and retention of Reserve members, and to ensure equity among all who serve in the military.

To support the successful administration of the RFPP, including audits of its financial statements, complete and pertinent information and documentation is key.

As such, Assistant Deputy Minister (Review Services) (ADM(RS)) was requested to conduct a targeted audit to assess if action taken by management would allow the Office of the Auditor General (OAG) to express an opinion on the financial statements. This included the completeness of information to support Reservist pensions.

Overall Assessment

The Department has controls in place to ensure the accuracy and completeness of information to support Reservist pensions. Improvements from past audits were observed with respect to the retention of HR and pay documentation. Further enhancements in the areas of policies and procedures, training, and monitoring and reporting will support the Defence Team's continued efforts regarding Reservist pension documentation.

Findings and Recommendations

Human Resources (HR) and Pay Information. Reservists' pay information was generally accurate. Supporting HR and pay-related documentation was not always correctly completed, signed or retained on file. To better support staff with pension-related duties, policies and procedures should be clarified and training enhanced to ensure Accountabilities, Responsibilities and Authorities (ARA) are well understood and executed.

Monitoring and Reporting. Monitoring and reporting activities are occurring. Additional monitoring and analysis would enable monitoring results to be fully leveraged to identify and remediate systemic documentation issues across the Defence Team.

Note: Please refer to [Annex A – Management Action Plan](#) for the management response to the ADM(RS) recommendations.

1.0 Introduction

1.1 Background

1.1.1 The Reserve Force

The Reserve Force, also known as the Reserves, is a voluntary force with the role of augmenting, sustaining and supporting the Regular Force of the Canadian military. There are three main types of service affiliated with the Reserves as follows:

Class A: Part-time service, paid for the number of days worked

- Half-day: Typically represents less than six hours worked
- Full-day: Typically represents greater than a six hour work period, (e.g., parading one night per week and one weekend per month)

Class B: Generally full-time, non-operational employment for greater than 12 continuous days (e.g., working on a contract as a clerk for six months to three years)

Class C: Generally full-time, operational-level employment (domestic or international). Class C Reservists are paid full Regular Force rate and are eligible for full benefits (e.g., Operation LENTUS (two week domestic deployment) or a one-year international deployment plus 6 to 12 months of work-up training)

1.1.2 Reserve Force Pension Plan

In 2007, the Defence Team introduced the RFPP to enhance the recruitment and retention of Reserve members, and to ensure equity among all who serve in the military. This was an important step in recognizing the key role and sacrifice of Reserve Force members. The RFPP is designed to provide qualified members with a retirement income payable upon release from the CAF.¹ Benefits are based upon a pension formula which includes CAF years of service, accumulated earnings and age of the member at release. HR and pay information and documentation are critical to calculating this formula.

There are many stakeholders, both internal and external that have a role to play in ensuring accurate and complete information is available to administer the pension plan, as depicted in Table 1.

¹ Reserve Force members are automatically enrolled in the RFPP after earning 10 percent of the Year's Maximum Pensionable Earnings in two consecutive 12-month periods.

Internal Stakeholders	Responsibilities
Chief of Military Personnel (CMP)	<ul style="list-style-type: none"> • Policy, finance and administration of the CAF pension plans • Managing the processes for CAF release • Management of the day-to-day operations of the Departmental Military Pay Process • Development of the military reserve pay controls
Assistant Deputy Minister (Finance) (ADM(Fin))/Chief Financial Officer (CFO)	<ul style="list-style-type: none"> • Validation of the military reserve pay controls • Conducting on-going risk monitoring to support Internal Control over Financial Reporting framework activities, including the RFPP and Reserve Pay
Army Reserve, Air Reserve and Naval Reserve	<ul style="list-style-type: none"> • Ensuring compliance with policy within their chain of command, including monitoring activities • Each Reserve unit is responsible for the administration of pay and allowances for their respective members
Reserve Unit Chief Clerks	<ul style="list-style-type: none"> • Certifying/approving pay at Reserve units for all respective members • Retention of pertinent information/documentation
External Stakeholders	
Office of the Auditor General (OAG)	<ul style="list-style-type: none"> • Primary auditor of the RFPP • Audits the Government of Canada financial statements
Public Services and Procurement Canada (PSPC)	<ul style="list-style-type: none"> • Administration of the RFPP for retired members (based on data and information provided by DND/CAF)

Table 1. Stakeholder Roles and Responsibilities. This table illustrates the internal and external stakeholder roles and responsibilities associated with the RFPP information.

1.2 Rationale

In the past, the OAG has been unable to issue an audit opinion on the RFPP as part of its audit of RFPP, due to a lack of departmental documentation including pay sheets, delegation of authority documentation and birth certificates. This documentation is important because it substantiates a Reserve member's approved hours worked, as well as other information, which is required to calculate the pension benefits.

While this documentation problem has persisted for some time, the Defence Team has been working to resolve the issue and increase the likelihood that the OAG will be able to provide an audit opinion on the RFPP financial statements. As such, ADM(RS) was requested to perform this audit to provide assurance that Departmental efforts to improve the completeness and accuracy of RFPP information are progressing.

1.3 Objective and Audit Criteria

The objective of the audit was to assess whether controls are in place to ensure the accuracy and completeness of information to support Reservist pensions.

The criteria used for this audit was the following:

1. Policies and procedures are in place, which clearly indicate ARAs for managing Reserve Force Pension information.
2. Monitoring and reporting is in place to ensure personnel and pay files contain accurate and complete information, and is retained as required.

The assessment against the audit criteria can be found at [Annex B](#).

1.4 Scope and Methodology

The scope of this audit included a review of the controls to ensure the completeness of information on file, both in members' personnel files and to substantiate payments. The audit did not include a review of Military Reserve Force Pay controls.²

The period of the audit focused on activities from April 1, 2019 until March 31, 2020. Further scope details, including exclusions and limitations and a complete listing of audit methodology are outlined in [Annex C](#).

² ADM(RS) conducted the Review of Military Reserve Payroll, August 2017. https://www.canada.ca/content/dam/dnd-mdn/migration/assets/FORCES_Internet/docs/en/about-reports-pubs-audit-eval/281p1259-3-005-eng.pdf.

2.0 Findings and Recommendations

2.1 HR & Pay Information

While sampled Reservists' pay information was generally accurate, supporting HR and pay-related documentation was not always correctly completed, signed or retained on file.

We expected to find:

- Evidence of sex at birth on file to support pension administration (e.g., birth certificate, driver's license or passport)
 - Current delegations of authority and appointment letters for staff certifying sampled pay transactions
 - Supporting pay documents (e.g., pay sheets and route letters) retained on file, complete and correctly filled out with associated signatures
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2.1.1 Policies, Procedures and Guidance to Support RFPP Information

Military Pay Administrative Instructions (MPAI) provide guidance on the information requirements to support the RFPP. While MPAI are detailed and readily available online, they are separated into eight sections, with additional sub-sections – totaling 27, which must be examined individually without the added benefit of a search option. The MPAI also include a user guide for the Revised Pay System for the Reserves (RPSR), which is more than 600 pages. If guidance is not easily accessible and consumable, it increases the likelihood of staff creating their own guidance – noted at one of the sites visited – which increases the risk of misinterpretation and errors, as the guidance created may be incomplete and outdated.

In addition to the MPAI, Chief Clerks can seek guidance from Director Military Pay and Allowances Processing (DMPAP) through two means: system Assyst tickets and the DMPAP help desk. Given the different service standards for System Assyst Tickets and the limited hours of the help desk, DMPAP advice and responses may not be timely to effectively support Chief Clerks.

2.1.2 Capacity of Staff

As per the MPAI, the Reserve Chief Clerk position must be classified as a Sergeant rank (or above) and is responsible for certifying all Reserve pay sheets on a bi-weekly and monthly basis. Should a lower rank be required to certify pay sheets, an exception request needs to be sent to DMPAP for approval. Many Chief Clerks at the units visited were acting, or were new to the job. At the time of audit, half of the units visited (3 of 6) did not have a substantive Chief Clerk employed. Interviews also indicated that high vacancy rates and turnover with other positions are a concern. For example, one unit reported they had been without a finance clerk for more

than two years, which resulted in the HR administrator having to perform financial tasks for which they were not trained.

While it was reported that on-the-job training occurs, training is not mandatory for staff using the pay system. Further, RPSR training is not provided to Regular Force and non-HR Administrator trades. Given that the processes and systems for Reserve pay differ from the Regular Force, combined with the fact that pay sheet and route letter³ information must be manually entered into the pay system from hard copy forms, increases the likelihood of errors in processing pay files and supporting pension information.

2.1.3 File review results

A review of 60 files yielded generally positive results, as follows:

- 100 percent data entry accuracy noted between hard copy pay documents and the RPSR, for date and duration worked entries;
- 77 percent of personnel files contained adequate evidence of sex at birth documentation
 - CMP has developed a Release Checklist to ensure Reserve member files are complete prior to their retirement and release; this checklist could be updated to verify that a member's birth certificate is on file;
- 89 percent of Delegation of authorities (DOA) were compliant, with minor exceptions related to the expiry of existing or approval of new DOAs;
- 88 percent of pay documents were serialized for tracking purposes, showing significant improvement from previous audits;
- 98 percent of pay documents were retained; and
- All units retained pay documentation going back seven years as required by policy.

Notable Practice

Naval Reserve Unit Carleton had a detailed archival schedule including location of all key documentation and its scheduled permitted disposal dates.

The following opportunities for improvement were noted:

- 12 percent of the hardcopy pay documents were not signed by the section 34 authority;
- 27 percent of route letters (4 of 15) were either missing section 32 signature, signature date or signature by the home unit prior to forwarding to the employing unit, as required;
- While MPAI 2-1, states that substantiation is not required when the event is part of the unit's business plan, it was reported that these plans often do not reflect the event date

³ Route letter definition – the contractual documentation that outlines a Reservist's term of work, including pay rate.

and therefore is difficult to determine if and when pre-approval is required when completing Class A monthly and daily pay sheets; and

- Class A monthly pay sheets do not have signature blocks to identify the name and rank of the approving supervisor.

Without the clarity that the signature is indeed from the supervisor confirming attendance, there is an increased risk of error or fraud, as there is little evidence to support that the member actually performed their duties, that the event was pre-approved, if required, or that the supervisor has the appropriate delegation.

Conclusion

Lack of training, experience and easily accessible guidance can result in pay errors (as noted in the file review) and inconsistent documentation practices, which affects the Department's ability to provide accurate information in support of the RFPP. The implementation of HR strategies to provide stability in key positions, such as the Chief Clerk, would improve documentation practices and application of key controls (e.g., section 32 and 34). User-friendly policies, clear pay forms and easily accessible systems training to support HR and pay administration, would provide additional support to increase the accuracy and completeness of information to support Reservist pensions.

ADM(RS) Recommendation

1. To improve the level of accuracy, completeness and retention of information on file to support Reservist pensions, it is recommended that:
 - a) MPAI remain evergreen and be consolidated to enhance usability;
 - b) Pay forms be clarified;
 - c) In consultation with the three environments, resourcing strategies be developed to ensure sufficient and consistent staffing of the Chief Clerk position and other key positions as appropriate; and
 - d) Formal training be provided for all staff performing Reserve pay-related duties.

OPI: CMP

2.2 Monitoring and Reporting

While monitoring and reporting activities are occurring, improvements are needed to ensure results are being fully leveraged to identify and remediate systemic issues across the Department.

We expected to find:

- Monitoring and reporting is occurring as required at various levels (e.g., Level 1, CMP and ADM(Fin)/CFO)
 - Results are analyzed and shared to promote continuous improvement across the Department
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2.2.1 Monitoring and Reporting

Monitoring and reporting is occurring in various capacities within DND/CAF. For example, nationally within CMP, DMPAP has a 4-person team that performs Site Inspection Visits (SIV) across the 240 Reserve Pay Offices to provide a standardized level of oversight and ensure pay controls, such as appropriate Section 32 and 34 approvals, are in place and working. Additional reserve pay allowance monitoring is also conducted, in a limited manner, as part of CMP's Quality Assurance program.

Since 2018, the MPAI state that Staff Assistance Visits (SAV) are to be performed by the Level 1 organization, to ensure compliance within each environment. At the time of the audit, the Air Reserve units indicated that they did not have sufficient capacity or resources to conduct SAVs. While Naval Reserve and Army Reserve units have been performing SAVs, the checklists used are not consistent and do not include some key HR checks to ensure personnel files are complete, such as ensuring birth certificates or equivalent are on file. Inconsistent monitoring practices affect the quality of information used by senior management to make informed decisions pertaining to pension information.

DMPAP reported that SAVs performed by the environments are not required to be reported back to CMP/DMPAP. Centralized SAV reporting would allow results to be leveraged and shared throughout DND/CAF to identify common themes, clarifications to guidance and support continuous improvement.

Lastly, ADM(Fin)/CFO executes ongoing internal control monitoring assessments. Certain risk factors are used to determine which internal controls should be included, such as items greater than \$900 million balance in the financial statements, and items which could cause reputational damage to the Department. Given past OAG results, an ongoing monitoring assessment of controls for Military Pay (regular and reserves) is scheduled for 2020/2021, which will conclude on the controls related to personnel and pay files in the context of the RFPP.

Conclusion

Formalizing SIV/SAV activities, including standardizing checklists and centralizing SAV reporting will support the accurate and complete information to support Reservists' pensions. As well, ongoing monitoring and internal control testing of both RFPP controls and Reserve Pay controls in general, would strengthen processes and ensure consistency across DND/CAF.

ADM(RS) Recommendation

2. It is recommended that CMP monitoring activities and internal controls for reserve force pension and pay elements be strengthened by:
 - a) Standardizing SIV checklists to include all key HR documentation requirements (e.g., proof of sex at birth) in addition to pay controls;
 - b) Performing regular analysis of SIV/SAV results to identify and communicate trends, risks and systemic issues to all Reserve units to support continuous improvement; and
 - c) Performing testing of controls on a regular basis.

OPI: CMP

ADM(RS) Recommendation

3. It is recommended that the environments, in consultation with CMP:
 - a) Reinforce controls to ensure all pay transactions have been signed section 34, and the individuals signing have DOAs; and
 - b) Perform SAVs on a regular basis in accordance with standardized SIV checklists.

OPI: Commander Royal Canadian Navy (Comd RCN), Commander Royal Canadian Air Force (Comd RCAF) and Commander of the Canadian Army (Comd CA)

OCI: CMP

ADM(RS) Recommendation

4. It is recommended that ADM(Fin)/CFO identify and determine risks associated with RFPP controls as part of the next Internal Control over Financial Reporting risk assessment.

OPI: ADM(Fin)/CFO

3.0 General Conclusion

To support the successful administration of the RFPP, including audits of its financial statements, complete and pertinent information and documentation is key. As such, clear and evergreen policies and procedures, and adequate monitoring and reporting mechanisms are needed to ensure information is accurate, reliable and complete.

The Department has controls in place to ensure the accuracy and completeness of information to support Reservist pensions. Improvements from past audits⁴ were observed with respect to the retention of some HR and pay documentation. Further enhancements in the areas of policies and procedures, training, and monitoring and reporting will support the Department's continued efforts regarding Reservist pension information and documentation.

⁴ ADM(RS) Review of Military Reserve Payroll, August 2017. https://www.canada.ca/content/dam/dnd-mdn/migration/assets/FORCES_Internet/docs/en/about-reports-pubs-audit-eval/281p1259-3-005-eng.pdf; and 2011 Spring Report of the Auditor General of Canada Report, Chapter 3 – Reserve Force Pension Plan – National Defence, April 2011.

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.

HR and Pay Documentation

ADM(RS) Recommendation (Moderate)

1. To improve the level of accuracy, completeness and retention of information on file to support Reservist pensions, it is recommended that:
 - a) MPAI remain evergreen and be consolidated to enhance usability;
 - b) Pay forms be clarified;
 - c) In consultation with the three environments, resourcing strategies be developed to ensure sufficient and consistent staffing of the Chief Clerk position and other key positions as appropriate; and
 - d) Formal training be provided for all staff performing Reserve pay-related duties.

Management Action

Action 1.1

- a. Concur. The MPAI are continuously reviewed and DMPAP will work to enhance their readability. MPAI will continue to be published by topic; however, DMPAP will produce a consolidated/searchable version to improve usability.
- b. Concur. MPAI 2-1 details which voucher form is to be used for each transaction type; all voucher forms have instructions on how the form is to be completed/filed. As of June 30, 2020, as approved by the CFO, forms have been amended for e-signatures which will greatly assist the pay offices when dealing with remote personnel.
- c. Concur. Staffing and resourcing levels of the pay offices are a responsibility of each environment. DMPAP will provide the three environments information related to the deficiencies observed at the pay offices to assist in the development of staffing

strategies. In addition, DMPAP is assisting with the trial to consolidate three Field Ambulance pay offices, which if successful may provide additional opportunities where staff shortages are identified.

- d. Concur. As formal training is only provided to HR Administrator personnel by Canadian Forces Logistics Training Centre and this training is not always timely or available to non-Human Resource Administrator personnel, DMPAP will develop Military Pay Administration Officer and Pay Manager specific certification courses.

OPI: CMP

Target Date: September 30, 2021

Monitoring and Reporting

ADM(RS) Recommendation (Moderate)

- 2. It is recommended that CMP monitoring activities and internal controls for reserve force pension and pay elements be strengthened by:
 - a) Standardizing SIV checklists to include all key HR documentation requirements (e.g., proof of sex at birth) in addition to pay controls;
 - b) Performing regular analysis of SIV/SAV results to identify and communicate trends, risks and systemic issues to all Reserve units to support continuous improvement; and
 - c) Performing testing of controls on a regular basis.

Management Action

Action 2.1

- a. Concur. The SIV/SAV program is not producing the anticipated improvements, nor is it viable in its current format for the foreseeable future (COVID environment). DMPAP will conduct an in-depth review of the SIV/SAV program to address the program effectiveness with more emphasis on training, targeted quality assurance verifications and pro-active engagement. DMPAP will seek to acquire the necessary resources through the normal business planning process to expand the verification of information to include HR documentation.
- b. Concur. As noted above, DMPAP will perform an in-depth review of the SIV/SAV program to address the deficiencies of the program, with a focus on formal training of Military Pay Administration Officers and Pay Managers, and establishing regular communication on trends or training. As part of the review, DMPAP will seek to acquire the necessary resources through the normal business planning process to analyze results and support continuous improvement.

- c. Concur. As a result of the current COVID environment, DMPAP will ensure that Internal Controls such as DOAs and Section 34 are reviewed by the Quality Assurance team as part of their quarterly random sample program.

OPI: CMP

Target Date: September 30, 2021

ADM(RS) Recommendation (Moderate)

- 3. It is recommended that the environments, in consultation with CMP:
 - a) Reinforce controls to ensure all pay transactions have been signed section 34, and the individuals signing have DOAs; and
 - b) Perform SAVs on a regular basis in accordance with standardized SIV checklists.

Management Action

Action 3.1

- a) In accordance with the Logistics Readiness Programme, Naval Reserves Headquarters conducts Logistics Compliance Inspections across the 24 Naval Reserve Divisions in order to assess unit logistical readiness and overall compliance to logistics policies and procedures. The inspection list includes items related to Pay DOAs, Military Pay Administration Officer and Pay Manager appointments, and communication of such to DMPAP. Enhanced oversight of DOAs is also provided by Naval Reserve staff officer financial Services (Comptroller Department), who regularly reviews all Naval Reserve Division DOAs and coordinates items with staff officer inspections prior to Logistics Compliance Inspections. In addition to inspections and DOA compliance, Naval Reserve headquarters leads annual training and SAVs to ensure input is provided related to areas of improvement and compliance-related trouble areas. Recently, a peer-to-peer initiative was commenced by Naval Reserve staff officer inspections to share best practices and a database built of subject matter experts within specific subjects by region, to ensure support is available to all Naval Reserve Divisions. Nineteen SAVs or person-to-person tracked visits occurred in the previous fiscal year (to end February 2020) involving 11 different Naval Reserve Divisions.

Despite full compliance with directives and best efforts to ensure standards are maintained at Naval Reserve Divisions, the high frequency of members joining and leaving Naval Reserve Divisions for training and to augment the CAF, the general part-time nature of members at Naval Reserve Divisions, and recent HR pressures in the CAF which have left key full-time support positions unfilled in Naval Reserve Divisions, day-to-day business

continuity required to maintain compliance is challenged at many Naval Reserve Divisions and especially at Naval Reserve Divisions located in remote locations. As a way ahead, Naval Reserve is investigating options to establish full-time civilian positions in the event the trend continues, or to establish Naval Reserve class B positions in an effort to ensure the key positions are filled. This analysis will be completed by July 30, 2021.

- b) In accordance with Naval Order 7045-4, Logistics Compliance Inspections are conducted on a biennial cycle (12 of 24 units visited each year), and units with unsatisfactory results are subject to re-visits, as required. Naval Reserve Divisions are also required to conduct self-assessments in their off-years in anticipation of the Logistics Compliance Inspections. This biennial cycle will continue to be in place moving forward.

DMPAP also conducts Naval Reserve Division Pay SIVs. Efforts are made to synchronize with Logistics Compliance Inspection activities so as to minimize the impact to Naval Reserve Divisions; specifically, pay SIV items were added to the Logistics Compliance Inspection checklists in the past, and any outstanding items from SIV checklists will be included on SAV checklists by October 15, 2020. In addition, based on the recommendations of the review, the requirement to check for birth certificates as part of HR checks during Logistics Compliance Inspections will be included on the Naval Reserve Logistics Compliance Inspections checklist by October 15, 2020.

OPI: Comd RCN

OCI: CMP

Target Date: July 30, 2021

Action 3.2

The audit of the RFPP highlighted some concerns with respect to administrative compliance of the program. The RCAF Reserve Force is a critical component to the success of RCAF Operations, and Comd RCAF will take the necessary steps to ensure that the importance of regulatory compliance with pension administration is fully understood by those who administer it and take corrective action.

Director General Air Reserve has recently stood up a dedicated SAV team with a mandate of ensuring regulatory compliance across all aspects of Reserve Force administration and management. In order to address the noted concerns under recommendation, Comd RCAF has directed the following actions be taken that specifically focusses on the RFPP:

- a) Director General Air Reserve to direct current SAV Cell, in collaboration with DMPAP, to plan and develop a virtual pay and pension audit by end-November 2020. The audit plan will ensure regulatory compliance, assure section 34 certification and completeness for all pay transactions, and confirm valid financial DOA exists for individuals signing these documents;

- b) Director General Air Reserve to ensure SAV team members are trained to conduct checks by end-January 2021; and
- c) Director General Air Reserve to initiate SAV plan no later than end-April 2021, with intent for onsite visits every 1-2 years and virtual audits as required in accordance with current DMPAP SIV checklists.

These measures can be accomplished with minimal augmentation to the current staff in place in the Director General Air Reserve organization and will provide the necessary oversight to ensure proper administration and management of the RFPP.

OPI: Comd RCAF

OCI: CMP

Target Date: April 30, 2021

Action 3.3

- a) Canadian Army G1 Personnel Management/Canadian Army HR Superintendent will engage DMPAP to obtain the most current checklist and provide clear direction amplifying the MPAI to ensure that Commanding Officers, Military Pay Administration Officers, Pay Managers and Pay administrators are made aware of their roles and responsibilities. In addition, Canadian Army G1 Personnel Management/Canadian Army HR Superintendent will direct Level 2s to conduct virtual pay and pension audits to ensure that procedures and policies related to section 34 and DOA are understood and adhered to by end-November 2020.
- b) Canadian Army G1 Personnel Management/Canadian Army HR Superintendent will reinvigorate a holistic SAV plan with the intent of onsite visits every 1-2 years as required. These SAVs will be coordinated and conducted as soon as the business resumption plan situation allows.

OPI: Comd CA

OCI: CMP

Target Date: June 30, 2021 – dependent on COVID-19 environment

ADM(RS) Recommendation (Moderate)

- 4. It is recommended that ADM(Fin)/CFO identify and determine risks associated with RFPP controls as part of the next Internal Control over Financial Reporting risk assessment.

Management Action

Action 4.1

During Director Financial Controls 2020/21 annual Internal Control over Financial Reporting risk assessment, Director Financial Controls considered both this ADM(RS) report and the OAG's Results of the 2018/19 financial audit where they note:

“One opinion is still outstanding: the one on National Defence's Reserve Force pension plan. For many years, we have not been able to issue an audit opinion on the plan's financial statements. This has been because of significant and persistent problems with the department not retaining all the documents that support the data used to estimate pension obligations. Although National Defence has been actively developing ways to retain this information and gathering the supporting documents needed for us to complete our audit, much work remains to be done. On the basis of the progress made by National Defence and the audit work we performed to date on the 31 March 2018 financial statements, we expect to be able to complete the audit in early 2020.”

As a result, the scope of the Reserve Force Payroll business process element was modified to explicitly conclude on the controls related to personnel and pay files in the context of the RFPP.

The five-year Internal Control over Financial Reporting ongoing monitoring work plan calls for an Internal Control over Financial Reporting ongoing monitoring assessment of the Reserve Force Payroll business process in fiscal year 2021/22. This will allow CMP the time to remediate the items noted in this ADM(RS) report and the items noted in the 2018/19 Internal Control over Financial Reporting ongoing monitoring assessment of Regular Force Payroll.

Given that ADM(Fin) is addressing this issue, it is recommended that this MAP be closed.

OPI: ADM(Fin)/CFO

Target Date: Complete

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

Governance

1. Policies and procedures are in place, which clearly indicate ARAs for managing Reserve Force Pension information.

Assessment Level 3 – While the ARAs for managing the information related to the RFPP are generally well defined, documented and communicated, the rank of the Chief Clerk position varied between units as a result of high turnover and vacancy of this key position. While evergreen policies, procedures and guidelines are documented online, due to their size, complexity and not being user-friendly, in-house hard-copy procedures and guidance are being used to support clerks performing their duties. Additionally, some forms would benefit from additional clarity.

Controls

2. Monitoring and reporting is in place to ensure personnel and pay files contain accurate and complete information, and is retained as required.

Assessment Level 3 – Monitoring and reporting is occurring in various capacities within DND/CAF; however, gaps were identified during the audit. For example, internal controls for reserve pension and pay have not been tested on a regular or ongoing basis, and not all Level 1s are monitoring through SAVs due to resourcing issues. In addition, standardized checklists were not in use to ensure consistency, facilitate analysis and to identify systemic issues.

Sources of Criteria

Reference to: Committee of Sponsoring Organizations of the Treadway Commission (COSO), Internal Control - Integrated Framework, March 2013.

Annex C—Audit Scope, Methodology and Statement of Conformance

Scope

Inclusions:

The following were included in the scope of this audit:

- Primary Reserve units and personnel within the Army Reserve, Naval Reserve and Air Reserve active in fiscal year 2019/20 were selected as a result of the large number of reserve units available, leading to greater audit coverage.
- Full & half-day service worked during the last two weeks of April and the last two weeks of September 2019.

Exclusions:

The following were excluded from the scope of this audit:

- Health Reserve, Judge Advocate General Reserve and CANSOFCOM Reserve, Supplementary Reserve, the Canadian Rangers, and the Cadet Organizations Administration and Training Service.
 - These reserve organizations were unique given that either: i) there were fully dedicated resources; ii) the reserve service is minimal; or iii) the geographic location was not conducive to a timely review. An examination of the Rangers and Cadets could be explored as part of future risk-based audit planning.
- A detailed assessment of the rules governing the RFPP as set out under Part 1.1 of the *Canadian Forces Superannuation Act*.
- Payment types not related to full and half-day service (e.g., Contingency payments, allowances etc.)
- The administration of and completeness of information for retired annuitants – primarily a PSPC role.

Methodology

ADM(RS) performed the following activities:

- Reviewed previous observations from the OAG on the RFPP;
- Interviewed key stakeholder staff from the following organizations:
 - CMP, ADM(Fin)/CFO, Comd CA, Comd RCAF, Comd RCN and Chief of the Reserves;
- Visited six reserve units to conduct interviews and file testing:
 - Naval Reserve: Her Majesty's Canadian Ship *Cataraqui* in Kingston and Her Majesty's Canadian Ship *Carleton* in Ottawa
 - Army Reserve: 42nd Field Regiment Pembroke and Governor General Foot Guards Ottawa
 - Air Reserve: Air Reserve Flight Ottawa and 450 Tactical Helicopter Squadron Petawawa;
- Completed non-statistical, judgmental sampling of transactions and personnel files from the units.

- Data was extracted from the RPSR from the first two weeks in April 2019 and the final two weeks in September 2019, and filtered by Unit Identification Codes to enable the selection of the sample at the unit level.
- Sixty pay transactions (that included 60 unique reserve force member personnel files) and associated supporting documentation for accuracy, completeness and retention.
 - A mix of Class A, B and C transactions and full/half day service were selected, where possible
 - Five half days and five full days were selected per unit

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 Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* 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.