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Targeted Audit of Membership Fee Reimbursements within DND/CAF



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1259-3-0053 (ADM(RS))

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Acronyms and Abbreviations

ACS	Automated Cashier System
ADM(Fin)	Assistant Deputy Minister (Finance)
ADM(RS)	Assistant Deputy Minister (Review Services)
CAF	Canadian Armed Forces
CANFORGEN	Canadian Forces General message
CBI	Compensation and Benefits Instructions
CF	Canadian Forces
CFSU (O)	Canadian Forces Support Unit (Ottawa)
DGCB	Director General Compensation and Benefits
DND	Department of National Defence
DRMIS	Defence Resource Management Information System
FY	Fiscal Year
L1	Level One Organization
MILPERSCOM	Military Personnel Command
OPI	Office of Primary Interest
OPQ	Order Paper Question
SOP	Standard Operating Procedure

Results in Brief

Professional memberships are a positional and occupational requirement for many positions within the Defence Team, and are held by thousands of civilian employees and military members. Professional memberships promote a professional work force and competitive advantage that allows the Defence Team to meet operational requirements.

Certain civilian and military professional memberships qualify for reimbursement. These

Overall Assessment

Membership fee transactions are generally reimbursed as per departmental processes. Clarifying internal guidance and improving data quality will enhance organizational transparency and decision making related to memberships.

reimbursements represent approximately \$3.6 million in expenditures within the Defence Team for fiscal year (FY) 2018/2019. While these expenditures are low in materiality, they were identified as an area requiring additional oversight.

As such, Assistant Deputy Minister (Review Services) (ADM(RS)) was requested to perform this assurance engagement.

Findings and Recommendations

Governance: Not all collective agreements or military positions identify which memberships should be reimbursed. Additional internal guidance will provide clarification to support consistent understanding and processing of membership fees.

Internal Controls: Membership fees are generally reimbursed in accordance with departmental processes; all membership reimbursements within the file sample were reasonable.

Data Quality: To ensure senior management has sufficient information for decision making, data entry requirements should be implemented to ensure membership information is accurate and complete.

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

1.0 Introduction

1.1 Background

Professional memberships are a positional and occupational requirement for many Defence Team positions, and are held by thousands of civilian employees and military members. Some commonly held memberships include Chartered Professional Accountants for financial officers and Provincial Medical Licences for doctors.

Membership fee reimbursements are processed through the Automated Cashier System (ACS). These transactions are high in volume with low materiality, representing approximately \$3.6 million in departmental spending during FY 2018/19.

Data extracted from the Defence Resource Management Information System (DRMIS) shows that membership reimbursement transactions and total value are increasing, as depicted in Figure 1.

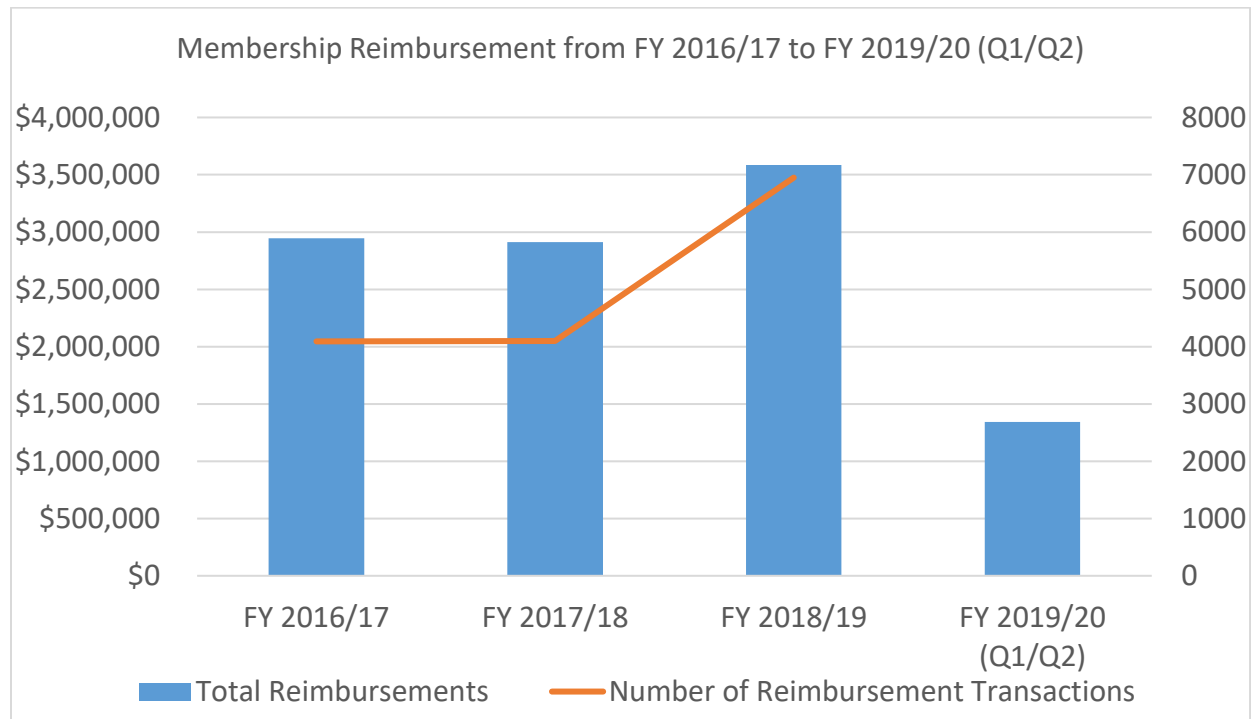


Figure 1. Membership Reimbursement from FY 2016/17 to FY 2019/20. This bar graph outlines the number of membership reimbursements and as well as the total value from FY 2016/17 to Q1/Q2 of FY 2019/20.

As a result of the ongoing issues with the Phoenix pay system, as of April 2018 all reimbursement transactions are processed through ACS. This change of system resulted in a

large backlog of transactions from the previous FY being processed through the new system in FY 2018/19. The increase in the value and volume of reimbursement transactions from FY 2017/18 to FY 2018/19 is largely attributable to the switch in systems used to process membership fee reimbursements.

1.1.1 Membership Fee Reimbursement Process Roles and Responsibilities

The membership reimbursement process has multiple steps and involves several stakeholders. The following table represents each stakeholder’s corresponding responsibilities in the process.

Role	Responsibility
Employee	<ul style="list-style-type: none"> • Pays for membership or licence fee. • Completes the request for reimbursement and provides necessary supporting documentation.
Manager	<ul style="list-style-type: none"> • Signs the request for reimbursement if the membership is reimbursable, as per the applicable Canadian Forces General message (CANFORGEN).
Section 34 Delegated Authority	<ul style="list-style-type: none"> • Signs the request for reimbursement to approve the use of funds for reimbursement, as per the applicable CANFORGEN. • Provides scrutiny and oversight for the claim.
Level One (L1) Comptrollership	<ul style="list-style-type: none"> • Enters financial coding on the request for reimbursement and send forms to Canadian Forces Support Unit (CFSU). • Provides financial oversight.
Cashiers/ CFSU (O)	<ul style="list-style-type: none"> • Enters forms into ACS. • The ACS transaction is then uploaded into DRMIS where the payment is processed for reimbursement to the employee. • Once the transaction is in DRMIS, additional oversight occurs in the form of monitoring and post-payment verification.

Role	Responsibility
Assistant Deputy Minister (Finance) (ADM(Fin))	<ul style="list-style-type: none"> Provides monitoring of taxable benefits and allowances including reimbursement of civilian and military memberships. Establishes guidance on the reimbursement process for civilian employees.
Military Personnel Command (MILPERSCOM)	<ul style="list-style-type: none"> Establishes guidance on the reimbursement process for military members.

Table 1. Membership Fee Reimbursements Roles and Responsibilities. This table outlines the responsibilities of each stakeholder.

1.1.2 Civilian Membership Reimbursements

The reimbursement of civilian membership fees previously fell under the guidance of Treasury Board's *Membership Fees* policy. The policy was abolished in 2012, at which time departments were to create and follow their own guidance and adhere to relevant collective agreement clauses. Within the Department, civilian employee membership fees are reimbursed in accordance with CANFORGEN (065/18) *Reimbursement of Civilian Membership Fees* as per the requirements outlined in collective agreements, as applicable (regulations differ for non-represented and represented staff). There are 24 collective agreements applicable to the Department.

1.1.3 Military Membership Reimbursements

Canadian Armed Forces (CAF) member membership fees are reimbursed in accordance with CANFORGEN (201/17) *Reimbursement of Individual Membership and Licensing Fees for CAF members*. This CANFORGEN applies to military incumbents in CAF occupations which are provincially or federally regulated, and where it is a requirement of the member's position to hold certain credentials to perform the duties of the position (e.g., Canadian Forces (CF) Health Services pharmacist).

Notable Practice

- CF Health Services attaches a directive indicating specific reimbursements by existing positions and allowable reimbursements in their files for reference.

1.1.4 Types of Memberships

The account containing membership reimbursements has three transaction groups, as follows:

1. Professional memberships: A professional membership is any membership, licence or designation that is required for an individual to perform the duties and requirements of their job, or as described in the employee's collective agreement. This membership fee is reimbursed directly to the staff member.

2. Corporate memberships: These memberships are purchased for the organization that are required and/or used in an operational capacity. For example, the Royal Military College pays an annual membership fee for their athletics program to be a member of the Canadian University Sports League to compete against other Canadian schools. There is no reimbursement directly to a Defence Team member.

3. Gym Memberships: A CAF member's gym membership is eligible if the member is not in proximity to a gym located on base or a Department of National Defence (DND) facility, as physical fitness is an operational requirement for CAF members. For example, if a CAF member is working at a recruitment center in Moncton, New Brunswick and the nearest military fitness facility is in Canadian Forces Base Gagetown, they will require access to a public or private gym with the proper equipment, in order to maintain their fitness. The Defence Team will pay the gym membership directly to the gym provider. There is no reimbursement directly to a Defence Team member.

1.1.5 Assistant Deputy Minister (Finance) Process Review

ADM(Fin) has conducted a process review of membership fee reimbursements, focused solely on civilian reimbursements. The goal of this review is to streamline the civilian professional membership fees process to ensure the efficient handling and timely reimbursement of eligible fees using DRMIS. A number of benefits and deliverables are expected as a result of this process review, including:

- Automation of RL-1 tax slips which was included in the DRMIS November 2019 major release with T4 tax requirements planned for DRMIS in July 2020;
- Starting in the 2020 tax year, RL-1 and T4 tax slips for Quebec residents only will be automated; and
- Use of personal identifying information within DRMIS to link reimbursement transactions to individuals.

In conjunction with the process review, CANFORGEN (181/19 - ADM FIN 001/19) *Reimbursement of Civilian Membership Fees Update* was released on December 30, 2019, which states that Civilian Membership Fee Reimbursements will be processed through a new process and paid using DRMIS instead of ACS. Please see [Annex B](#) for a detailed overview of the new process.

At the time of the audit, the management fee reimbursement process roles and responsibilities were defined as in Table 1. Responsibilities will change once the ADM(Fin) process review is implemented; this was scheduled for January 1, 2020.

1.2 Rationale

An Order Paper contains the published listing of all items that may be brought forward to the House of Commons on a particular sitting day. A reoccurring Order Paper Question (OPQ) 2441 is completed on the reimbursement of membership fees. The departmental response to the OPQ listed each membership reimbursement transaction and the total value.

Upon review of the OPQ response, senior management first requested the reported data be analyzed, and second requested an audit engagement be performed to identify any trends, issues or inconsistencies within the membership fee reimbursement process.

1.3 Objective

The objective of this targeted audit was to assess how membership fees are reimbursed, tracked, approved, monitored and processed for military members and civilian employees within the Defence Team. The audit scope and methodology are included in [Annex C](#).

1.4 Audit Criteria

1. Membership fees are reimbursed as per applicable policy and/or collective agreement and position requirements.
2. The process for membership reimbursements works as intended and is standardized across the Department.
3. Information and data related to membership reimbursements are accurately recorded into departmental financial management information systems.

2.0 Findings and Recommendations

2.1 Governance

Internal guidance for membership fees should be clarified to support consistent application and interpretation across the Department.

We expected to find:

Membership fees are reimbursed in accordance with civilian and military CANFORGENs and, as applicable, collective agreements.

2.1.1 Reimbursement Policies

Civilian

A review of the 24 collective agreements applicable to DND found inconsistent references to membership fees. Specific membership clauses were found in 6/24 collective agreements. The same general membership clause was found in 9/24 collective agreements, stating:

The Employer shall reimburse an employee for the employee’s payment of membership or registration fees to an organization or governing body when the payment of such fees is a requirement for the continuation of the performance of the duties of the employee’s position.

No membership fees reimbursement clauses were found in 9/24 collective agreements.

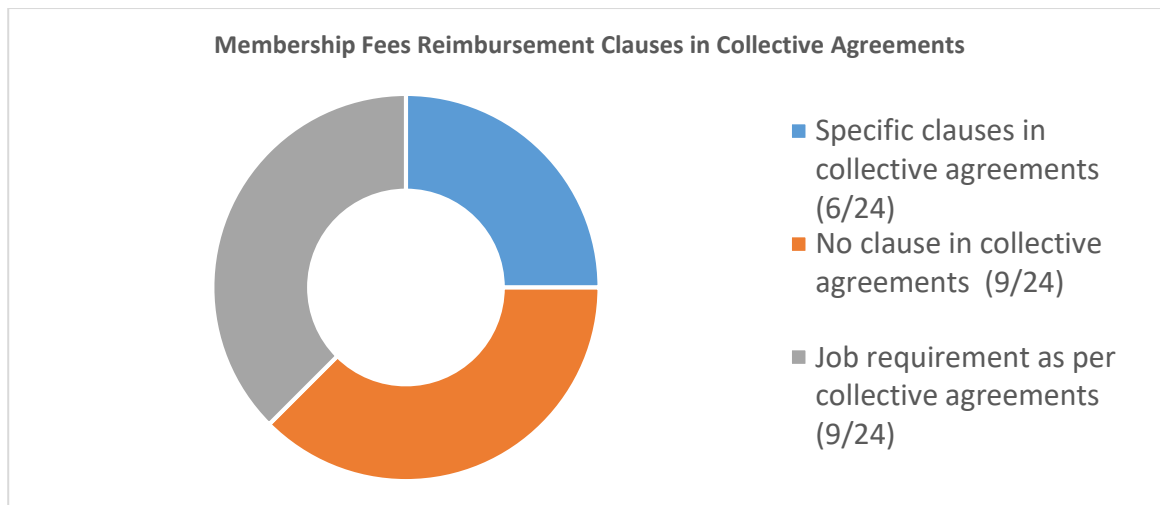


Figure 2. Membership Fee Reimbursement Clauses in collective agreements. This figure breaks down the number of collective agreements with or without membership fees reimbursement clauses.

The membership reimbursement clauses in some collective agreements are vague or non-existent, which may result in inconsistent interpretation and application. Some employees may not be receiving reimbursements they are entitled to or, conversely, receiving reimbursements to which they are not entitled. Enhanced guidance and standard operating procedures (SOP) will reduce any ambiguity caused by collective agreement clauses.

Military

Military members have professional membership fees reimbursed if it is defined as a requirement of their position. Professional membership reimbursements may be defined through internal directives, policies or by manager discretion. For example, CF Health Services distributes a directive and list annually to membership co-ordinators which identifies allowable reimbursements by each position within their organization.

2.1.2 Conclusion

Membership reimbursements in some collective agreements and positional requirements are vague or non-existent. This may result in inconsistent interpretation and application. Improved guidance and operating procedures for the processing of memberships fees should remove the ambiguity created by collective agreement clauses.

ADM(RS) Recommendation

1. ADM(Fin) should update the policy for Membership Reimbursements for Civilian Employees to include:
 - Guidance and SOPs for the completion, processing and record keeping of membership fees and associated documentation.
 - Direction to L1s to develop a directive and/or list indicating specific reimbursements by existing positions and allowable reimbursements for consistency, where the collective agreements and conditions of employment are silent.

OPI: ADM(Fin)

ADM(RS) Recommendation

2. As per CANFORGEN for Membership Reimbursements for Military Members, MILPERSCOM should develop and implement Compensation and Benefits Instructions (CBI), which include guidance and SOPs for the completion, processing and record keeping of membership fees and associated documentation.

OPI: MILPERSCOM (Director General Compensation and Benefits (DGCB) and Comd DGCB)

2.2 Internal Controls

Professional membership fees are generally reimbursed in accordance with departmental processes; all membership reimbursements within the file sample were reasonable.

We expected to find:

The process for membership reimbursements works as intended.

2.2.1 Membership Reimbursement Process

The process for membership reimbursements is complex and paper-based, which increases the risk of data entry errors. As the information flows through the process, individuals may not have full details, resulting in errors when entering information into ACS and DRMIS. These errors may result in the organization having incomplete or incorrect data pertaining to membership fee reimbursements within its financial management systems. Data will be discussed further in section 2.3.

2.2.2 Membership Reimbursement Documentation

A total of 77 reimbursement transaction files was reviewed to identify issues and notable practices within the Defence Team. These files included professional memberships, corporate memberships and gym memberships.

No instances of misappropriation or duplicate payments were found through file review and data analysis. This review also found that professional membership files generally conformed to documentation requirements, with minor data entry errors. These files included the claim form, an invoice and proof of payment. Most files also contained a membership form which contained an approving signature and rationale, as well as the relevant collective agreement and/or directive indicating approval for reimbursement.

Of the 77 files reviewed, 12 files were gym memberships. Each of these files included an invoice, email communication to confirm payment and a list of individuals being provided memberships due to their work location. The relevant directive and cost comparison of alternative options for the Personnel Support Program was also included in most of these files.

For the four corporate membership files reviewed, the fund centre responsible was unable to provide supporting documentation. When asked for details, base staff were generally able to explain the rationale and the process of reimbursing corporate membership fees.

Interviews and data analysis confirmed that there is a low risk of duplicate payments or misappropriation occurring within the process. Verification is performed on membership reimbursement transactions at various levels (e.g., on base, within ADM(Fin) and/or oversight of DRMIS within organizations). Additionally, the approval process involves multiple stakeholders and levels of oversight, which mitigates the risk of duplicate payments and/or misuse of public funds.

2.2.3 Conclusion

While the reimbursement process is paper-based and high volume, the audit found the process was generally followed, and no inappropriate reimbursements were detected in our file sample. Due to the various levels of oversight, there is minimal risk of duplicate payments. Minor data entry errors were detected, which could impact information used to support monitoring and reporting. This is discussed further in the next section.

2.3 Data

Membership data is lacking sufficient detail to perform analysis, which limits information to support senior management decision making.

We expected to find:

Information and data related to membership reimbursements are accurately recorded into DRMIS.

2.3.1 Data Quality

Membership reimbursement data from FY 2018/19 to FY 2019/20 (Quarter 1 and Quarter 2) was analyzed. Analysis of the reimbursement data showed that:

- Data often did not include completed information fields, accurate descriptions and organizational/L1 data. Empty fields for the same transactions were also detected. For example, 553 reimbursement entries from FY 2018/19 had no description.
- The data is not stand-alone, it requires linking with other databases (e.g., Human Resource Management System) to gather information required for analysis of membership fee reimbursements.

These issues, specifically incomplete data, impact senior management's ability to make informed, timely decisions. Some data entry errors may be attributed to recently posted military staff having limited awareness of all their financial roles and responsibilities. Without appropriate training, those working out-of-trade may be working with limited knowledge and experience of financial directives and processes.

A recommendation from a previous ADM(RS) engagement¹ highlighted the need for increased financial training for military members in finance positions. This training, identified by ADM(Fin), should help to mitigate risks associated with finance staff working out of trade. Please refer to [Annex D](#) for the complete recommendation.

As previously noted, ADM(Fin) is currently performing a process review which should allow payments to be made directly through DRMIS and improve data quality.

2.3.2 Conclusion

Data quality issues, including a lack of available data, impact decision-making information and financial transparency within the Department. Data entry standardization is needed to ensure information is correctly captured to improve membership reimbursement data quality. Increased training for finance staff who are working out-of-trade is being developed and implemented, to ensure financial directives and processes are followed moving forward. Previously recommended work for financial training should help to address these identified gaps.

ADM(RS) Recommendation

3. Standardized data entry requirements for DRMIS should be developed and monitored to ensure that membership reimbursement information required for analysis, reporting and decision making by senior management is accurate, complete and reliable.

OPI: ADM(Fin)

¹ ADM(RS) Audit: Financial Management Controls and Practices Summary Report.

3.0 General Conclusion

Professional memberships are a positional and occupational requirement for many positions within the Defence Team. As such, the Department has policies in place to support the reimbursement of these memberships. Additional clarifications to this internal guidance will clarify any ambiguity associated with collective agreements and support the consistent interpretation of membership eligibility.

Membership reimbursements were generally processed in accordance with departmental processes. Reimbursements reviewed largely conformed to the existing requirements for membership fee reimbursements. There is a low risk of duplicate payments and misuse due to the number of units and people involved in the oversight of the process.

Membership transaction data is not easily accessible to allow meaningful analysis and reporting to be conducted. Without easily accessible and complete data, senior management may not have all the information required to make informed decisions. The Department's ongoing process review should support improvements to data quality.

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 (Low)

1. ADM(Fin) should update the policy for Membership Reimbursements for Civilian Employees to include:

- Guidance and SOPs for the completion, processing and record keeping of membership fees and associated documentation.
- Direction to L1s to develop a directive and/or list indicating specific reimbursements by existing positions and allowable reimbursements for consistency, where the collective agreements and conditions of employment are silent.

OPI: ADM(Fin)

Management Action

Action 1.1

- There is no central agency financial direction for civilian membership fees. December 2019, CANFORGEN 181/19 Reimbursement of Civilian Professional Membership fees was released to the Defence team announcing changes to the business process for civilian professional membership reimbursement.
- Effective January 1, 2020, ADM(Fin) published SOPs for claiming, processing, tax reporting and record keeping related to civilian professional membership fees.
- By September 30, 2020, where the collective agreements and conditions of employment are silent, ADM(Fin) will provide direction to L1s for seeking written authorization for reimbursement prior to seeking approval.

Data Quality

ADM(RS) Recommendation (Moderate)

3. Standardized data entry requirements for DRMIS should be developed and monitored to ensure that membership reimbursement information required for analysis, reporting and decision making by senior management is accurate, complete and reliable.

OPI: ADM(Fin)

Management Action

Action 3.1

On January 1, 2020, ADM(Fin) published SOPs for claiming, processing and tax reporting related to civilian professional membership fees within DRMIS that will allow for a standardized process to assist with better data and enhance decision making. By March 31, 2021, ADM(Fin) will prepare a framework for annual monitoring of membership reimbursement to ensure consistency.

OPI: ADM(Fin)

Target Date: March 31, 2021

Annex B—Membership Fee Reimbursement Approval Process (After January 1, 2020)

CANFORGEN (181/19 - ADM FIN 001/19) *Reimbursement of Civilian Membership Fees Update* was released on December 30, 2019, which states that the process for Civilian Membership Fee Reimbursements will be processed through a new process and paid using DRMIS instead of ACS. The following steps describe the process for civilian membership fee reimbursement as of January 1, 2020:

1. Eligible civilian professional membership fees shall be paid using DRMIS instead of the ACS.
2. Completed and approved reimbursement claim and supporting documentation should be forwarded to unit accounts payable section to be paid using a knowledge base document in DRMIS.
3. Employees and their section 34 managers must ensure that additional information (e.g., proof of payment and reference to the relevant article in the collective or employee agreement) be attached to the general allowance claim (CF-52) form.
4. L1 comptrollers (for National Capital Region only) and local comptrollers contact their unit's local access control officer to create/certify or update DRMIS user access role for their accounts payable clerks.
5. When completing the CF-52 form, employees complete the financial coding block.

Annex C—Audit Framework

Scope

The scope of this targeted audit included the review of the policies and processes in place to reimburse membership fees to DND employees and CAF members, which included the roles, responsibilities and files pertaining to reimbursement transactions from General Ledger 4618 (V1 Membership Fees), within DRMIS.

DRMIS data analysis for membership reimbursement transactions was reviewed between FY 2016/17 and FY 2019/20 (first two quarters). File review of membership reimbursement transactions from FY 2018/19 and FY 2019/20 (quarter one and two).

The audit work was conducted from August 2019 to November 2019.

The following were excluded from the scope of this targeted audit:

- Membership Fee Reimbursement Transaction files from previous FYs;
- Reimbursement eligibility and rationale reasoning provided; and
- Phoenix pay system timeliness and claim processing.

Methodology

The targeted audit results are based on the following:

- Interviews with subject matter experts in financial roles and the reimbursement process;
- Data analysis of membership reimbursement transactions within DRMIS between FY 2016/17 and FY 2019/20 (first two quarters);
- File review of membership reimbursement transactions from FY 2018/19 and FY 2019/20 (Quarter 1/Quarter 2). The original scope for file review was FY 2018/19, which was later revised to include Quarter 1 and Quarter 2 of FY 2019/20 due to file availability; and
- Process walkthrough with membership co-ordinators.

Annex D—Financial Management Controls and Practices Summary Report

Recommendation: Training

It is recommended that ADM(Fin)/Chief Financial Officer work with other L1s to periodically identify and address gaps in training, knowledge and experience of all civilian and military personnel who perform financial management functions, taking into consideration the diverse needs of this community and the risk areas identified as a result of monitoring activities.