

2011



Report of the
**Auditor General
of Canada**
to the House of Commons

SPRING

Chapter 3
Reserve Force Pension Plan—National Defence



Office of the Auditor General of Canada

The Spring 2011 Report of the Auditor General of Canada comprises three chapters. The main table of contents for the Report is found at the end of this publication.

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For copies of the Report or other Office of the Auditor General publications, contact

Office of the Auditor General of Canada
240 Sparks Street, Stop 10-1
Ottawa, Ontario
K1A 0G6

Telephone: 613-952-0213, ext. 5000, or 1-888-761-5953

Fax: 613-943-5485

Hearing impaired only TTY: 613-954-8042

Email: distribution@oag-bvg.gc.ca

Ce document est également publié en français.

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Cat. No. FA1-2011/1-3E-PDF

ISBN 978-1-100-18277-3

ISSN 1701-5413

Chapter

3

Reserve Force Pension Plan—
National Defence

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Reserve Force Pension Plan— National Defence

Main Points

What we examined

The Reserve Force Pension Plan was first introduced in 2007. It is governed by the *Canadian Forces Superannuation Act* and the *Reserve Force Pension Plan Regulations*. The plan is funded from employee and employer contributions. The Department of National Defence is responsible for providing program management and day-to-day administration of the plan.

The Auditor General was appointed in November 2008 to audit the financial statements of the Reserve Force Pension Plan. For the 2007–08 and 2008–09 fiscal years, the audit resulted in a denial of opinion because there was not sufficient information to determine the reliability of the financial statements. We therefore decided to conduct a performance audit of the implementation of the plan, given the problems encountered.

We examined the approach National Defence followed to plan and implement a pension plan for the Reserve Force. We also examined whether the Department had the means necessary to operate the plan, including an organizational structure, resources, and information systems and control procedures.

Audit work for this chapter was substantially completed on 30 November 2010.

Why it's important

Until 2007, there was no pension plan for reservists, although they are an integral part of the Canadian Forces. The plan was introduced to address human resource compensation issues. There are currently around 21,000 reservists in the Reserve Force Pension Plan. Roughly half of them are eligible to buy back service related to their reservist employment—for example, paying an amount for a period of past service when no pension contribution was made. If the plan is not adequately managed, then Reserve Force members may not receive what they are entitled to in a timely manner.

What we found

- There is a serious backlog in processing pension buybacks of past service. The Department's statistics showed that only 4 percent of the 9,213 buybacks requested by 31 March 2010 had been processed. Other pension services—general inquiries, return of contributions, and processing of released reservists—are backlogged as well. Based on National Defence projections, many reservists could wait seven years or longer to know what pension benefit to expect and what it will cost them. Administrative actions over the past three years, hiring more staff, acquiring new office accommodation, and developing systems and procedures have not resulted in better delivery of pension services.
- The Reserve Force Pension Plan was introduced without adequate planning. Except briefly before 2001, the plan was not identified, planned, and implemented as a stand-alone project but rather was part of a larger pension modernization project. As a result, no senior official was made responsible for the Reserve Force Pension Plan. In addition, as decisions were made to proceed with a pension plan for reservists, management identified significant risks to successful implementation of the plan but did not deal with them until after the plan came into effect in March 2007. This adversely affected the delivery of pension services to reservists.

The Department has responded. The Department agrees with our recommendation. Its detailed response follows the recommendation in the chapter.

Introduction

Our financial audit found serious problems

Pension buyback—A payment of an amount for past service for which there were no contributions, adding to the total of pensionable earnings and increasing the years of pensionable service. The increase in total earnings provides a larger pension and the increase in pensionable service may allow retirement at an earlier date with an unreduced pension.

3.1 This performance audit was undertaken as a result of the first audit of the financial statements of the Reserve Force Pension Plan that the Office of the Auditor General carried out for the 2007–08 and 2008–09 fiscal years. The audit could not determine whether the financial statements reliably presented the financial position of the pension plan and the results of operations for those years. This is largely because a backlog in unprocessed **pension buybacks** made it impossible for National Defence to report reliable estimates of the total accrued pension liability and contributions receivable for the pension plan. This, combined with errors and control weaknesses, resulted in the denial of an audit opinion on the financial statements.

3.2 National Defence requested that we not carry out a financial audit of the Reserve Force Pension Plan for the 2009–10 and 2010–11 fiscal years to allow time to address the backlog of pension buyback elections. We have accepted the request and plan to resume the audit for 2011–12.

About the Reserves

3.3 The main role of the Reserve Force (also known as “the Reserves”) is to augment, sustain, and support the Regular Force of Canada’s military. Reserve service is voluntary and, unlike a Regular Force member, most reservists serve on a part-time basis; they may have full-time careers outside the Canadian Forces or may be full-time students. Some volunteer for full-time military employment, normally under a specified contract period of three years or less. Reservists have been deployed to operations in Afghanistan, Bosnia, and Croatia, as well as to other international commitments. In Canada, reservists have helped with domestic operations, such as supporting the Olympic Games and providing armed and non-armed assistance to civil authorities. Reserve units across Canada also help the Canadian Forces participate in cultural events, parades, and festivals in local communities.

3.4 The Reserves have four sub-components:

- Primary Reserve is the largest sub-component, comprising Naval, Army, Air, Health Services, Judge Advocate General, Public Affairs, Special Operations, and the National Defence Headquarters Primary Reserve List.

- The Cadet Organizations Administration and Training Service consists of commissioned officers and non-commissioned members whose primary duty is the supervision, administration, and training of cadets or Junior Canadian Rangers who are members of the cadet organizations.
- The role of the Canadian Rangers is to provide a military presence in those sparsely settled northern, coastal, and isolated areas of Canada that cannot conveniently or economically be covered by other elements of the Canadian Forces.
- The Supplementary Reserve is composed of former Regular Force and Primary Reserve members who have chosen to be held on this list upon release. They have no obligation to serve unless there is an order-in-council to place them on active duty.

3.5 Reserve service is divided into classes A, B, and C. Class A is similar to casual or part-time work, involving training or employment that does not exceed more than 12 consecutive days. Class B reservists have an agreement to train or work for 13 or more consecutive days. Class C members serve full-time on an operation approved by the Chief of Defence Staff. Most reservists—approximately 70 percent in March 2010—fall under Class A, and their service can vary from a few days per year to more than 100 days per year. A reservist can serve on multiple contracts of different classes throughout their career.

About the Reserve Force Pension Plan

3.6 The need for a pension plan for reservists can be traced to the late 1980s, when it was determined that such a plan could help recruit and retain reservists. Since reservists were virtually the only group in the federal public sector working without pension plan coverage, the absence of a pension plan was viewed as an equity issue. Exhibit 3.1 (page 7) briefly outlines the history of efforts to establish a pension plan for reservists.

3.7 National Defence is responsible for the development, maintenance, and delivery of the Reserve Force Pension Plan, which is governed by Part 1.1 of the *Canadian Forces Superannuation Act* (CFSA) and by the *Reserve Force Pension Plan Regulations*. It is a defined benefit pension plan that provides a pension based on salary and years of service. Once certain service levels and earnings are reached, a reservist is automatically enrolled in the plan. Membership in the plan is compulsory for all eligible members, except those who have sufficient full-time service to be eligible, under Part 1 of the CFSA, for membership in the Canadian Forces Pension Plan (the plan

for members of the Regular Force). As of March 2010, approximately 21,000 contributors were in the Reserve Force Pension Plan.

3.8 Within the Department, responsibilities are divided among the following three major senior managers:

- The Chief of Military Personnel is responsible for plan design and policy development, including legislative amendments and regulations.
- The Assistant Deputy Minister, Finance and Corporate Services, is responsible for pension services, pay systems administration, contribution and benefit calculations, and annual reports.
- The Assistant Deputy Minister, Information Management, is responsible for implementing, upgrading, and maintaining supporting systems.

3.9 Establishing a new federal pension plan is a rare and specialized undertaking. In this case, it was further complicated by several factors. The Reserve Force Pension Plan permits reservists to buy back pension for all their past service. However, before 1999, pay and service records for reservists were kept in hard copy only, at the various reserve unit locations across the country, and could not always be retrieved. Other records that were more difficult to obtain had to be retrieved in order to process buyback elections. The Department was aware of serious challenges in documenting the actual service and earnings of reservists before 1999. In addition, the Department undertook the creation of the Reserve Force Pension Plan at the same time as it was introducing changes to the Canadian Forces Pension Plan for the Regular Force members. The intention was that eventually Public Works and Government Services Canada would deliver the services for both pension plans, while the Department would retain policy responsibilities.

3.10 To date, there has been little benefit payment activity in the Reserve Force Pension Plan. Information that National Defence provided indicates that, as of 31 March 2010, 99 individuals were receiving an annuity, an annual allowance, or a survivor benefit. A further 627 had received a return of contributions, and there were 977 transfers (rollovers) to the Canadian Forces Pension Plan. About 190 reservists had received a benefit payment under the Canadian Forces Pension Plan.

Focus of the audit

3.11 The overall objective of this audit was to determine whether National Defence has adequately implemented the Reserve Force Pension Plan.

3.12 We examined the approach the Department had followed to plan and implement a separate pension plan for reservists. We examined whether the Department had the means necessary to operate the pension plan, including organizational structure, resources, and information systems and control procedures.

3.13 Our scope did not include the Treasury Board of Canada Secretariat, which is responsible for overall pension policy and general guidance to National Defence on accounting for the plans. In addition, we did not audit Public Works and Government Services Canada, which manages the pension payroll function on behalf of National Defence and is the lead department for the modernization of business and system processes of all major federal pension plans. Furthermore, we did not examine the Canadian Forces Pension Plan for Regular Force members. Lastly, we did not assess the policy and design of the Reserve Force Pension Plan.

3.14 More details about the audit objectives, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

Observations and Recommendation

Planning and implementing the Reserve Force Pension Plan

3.15 We examined how National Defence planned and implemented the Reserve Force Pension Plan. Our focus was on the 2005–06 to 2009–10 fiscal years; however, we also looked at how planning and implementation efforts have evolved since 1999, when the *Canadian Forces Superannuation Act* (CFSA) was amended to authorize the creation of the pension plan (Exhibit 3.1).

3.16 We sought to determine whether planning for the Reserve Force Pension Plan reflected the principles and practices set out in the Treasury Board's Project Management Policy. We also considered other practices, including general program management. More specifically, we looked for well-defined objectives, an accountability framework, use of sound management principles, and adequate resources. We also looked for management that is sensitive to risk, complexity, and economy of resources. We interviewed key officials, past and present, and reviewed documents they provided. We made one recommendation, which can be found at the end of the chapter.

The Reserve Force Pension Plan was introduced without adequate planning

3.17 Senior officials confirmed that the development of a pension plan for reservists was a significant undertaking with difficult policy and administrative challenges. However, with the exception of a brief period before 2001, the Reserve Force Pension Plan was not identified as a stand-alone project, and no senior official was made responsible for it at the project management level. Instead, responsibilities were initially divided between the Chief of Military Personnel and the Assistant Deputy Minister of Finance and Corporate Services.

3.18 Beginning in 2001, as part of the Canadian Forces Pension Modernization Project (CFPMP), the Chief of Military Personnel undertook initiatives to obtain statutory authority and develop policy

Exhibit 3.1 Key events in establishing the Reserve Force Pension Plan

Date	Event
October 1998	The Standing Committee on National Defence and Veterans Affairs recommended that National Defence pursue initiatives to put in place a pension plan for the Reserve Force.
September 1999	Parliament authorized a number of changes to the Canadian Forces pension arrangements, including providing authority to establish a pension plan for the Reserve Force.
March 2000	The Reserve Pension Project was established to design and implement the Reserve Force Pension Plan and the required regulations.
May 2001	National Defence merged the review of the <i>Canadian Forces Superannuation Act</i> and development of the Reserve Pension Project into the Canadian Forces Pension Modernization Project (CFPMP). The CFPMP objectives were to <ul style="list-style-type: none"> • support the strategic human resource goals of the Canadian Forces, • provide access to a pension plan for members of the Reserve Force, and • provide the legislative amendments that the federal government's pension reform initiatives required.
November 2003	The <i>Canadian Forces Superannuation Act</i> (CFSA) was amended to enable certain reservists to become eligible for the Canadian Forces Pension Plan (for Regular Force members). There are two parts to the CFSA: <ul style="list-style-type: none"> • Canadian Forces Pension Plan, under Part 1 • Reserve Force Pension Plan, under Part 1.1
June 2004	The Central Computation Pay System Pension Module Upgrade project was established. Its objective was to develop a new system to support the administration of the modernization introduced with the amendments to the CFSA.
June 2005	The Treasury Board approved, in principle, the key elements of the Reserve Force Pension Plan to be included in regulations.
February 2007	The Treasury Board approved regulations for the Reserve Force Pension Plan.
March 2007	The Reserve Force Pension Plan came into force.

and regulations; the CFPMP was completed in 2007, just before the plan started. The Department acknowledged that the CFPMP took longer and cost more than was originally anticipated. In 2007, when the Reserve Force Pension Plan came into force, the Assistant Deputy Minister of Finance and Corporate Services began to deliver plan services.

3.19 We found that management had not developed or used a master implementation plan. In our view, the lack of an overall plan to coordinate the development of policy and regulations with the start of the delivery of the Reserve Force Pension Plan contributed to the subsequent weaknesses we found in its implementation.

Management identified significant risks, but did not deal with them

3.20 We noted that, before implementation of the Reserve Force Pension Plan in 2007, management had identified significant risks to successful implementation of the plan while making key policy decisions to go ahead with it. These risks included

- reservists not receiving useful information about the pension plan provisions and, as a result, not choosing the financial option best suited to their circumstances;
- workloads increasing substantially, particularly to process pension buyback requests, when staff were still learning new business rules and system tools;
- a lack of adequate pay and service records for reservists prior to 1999; and
- complex regulations and business rules, making the pension plan difficult to manage and communicate to reservists.

3.21 As outlined in the following section, we found that the Department did not take measures to sufficiently mitigate these risks until after the plan came into force in March 2007, which adversely affected the delivery of pension services to reservists.

Operating the Reserve Force Pension Plan

3.22 Under the legislation and regulations, National Defence was required to put in place the means necessary to operate the Reserve Force Pension Plan, including resources and information systems and control procedures. These procedures needed to be in place at the time the plan came into effect, to determine member obligations and entitlements according to the authorities.

3.23 We examined what was in place to administer the Reserve Force Pension Plan when it came into force on 1 March 2007, and what has been done to develop administrative capacity since then.

National Defence was not fully ready

3.24 While the Department anticipated implementation difficulties, we found that it did not provide sufficient lead time, before the Reserve Force Pension Plan came into force, for hiring and training staff or for testing service delivery readiness for different scenarios that could be expected. Management underestimated service demands and administrative costs. The focus before the plan came into force had been on completing regulations and business rules and having an information technology system in place to meet minimum requirements for operating the plan.

3.25 In addition, as the responsible officials informed us, the regulations are complex and therefore complicated to administer. For example, the regulations stipulate that the Department must determine for each reservist the number of days of service and the period worked each day. This can be difficult, because the documentation of reservists' service prior to 1999 is not complete, and their work history can vary greatly.

3.26 In response to the unanticipated demand, the Department sought and received Treasury Board approval for a series of increases in administrative costs over the 2007 to 2010 period. Subsequent to the plan coming into force in March 2007, the Department's pension administration unit hired additional staff—a 45 percent increase, from 109 to 158 full-time equivalents over the three fiscal years to 31 March 2010—and acquired new office space. As we completed our audit, the Department informed us that it was in the process of hiring more staff. In addition, the Department established new methods and procedures, including a case management system for pension services; set up a call centre; and bought new office equipment.

There is a serious backlog in pension buybacks

3.27 National Defence designed the Reserve Force Pension Plan to include all reservists (subject to eligibility) and to allow pension buyback elections for an unlimited period of prior service. The deadline for electing pension buybacks was 1 March 2010 (later extended to 1 March 2011). In allowing these elections, the Department needed to inform reservists of their costs and benefits in a timely manner.

3.28 We found a serious backlog in processing pension buyback elections (Exhibit 3.2). National Defence statistics indicate that, by 31 March 2010, it had received 9,213 pension buyback elections, only 4 percent of which had been processed by that date. We were told that many files are complex and, due to the lack of complete and readily accessible records prior to 1999, processing those files requires extensive manual work to verify past service and pay. The Department estimates that it takes an average of 80 to 100 hours to finalize one buyback election.

3.29 The increase in the backlog between March 2009 and March 2010 was largely the result of a surge in pension buyback elections (about 3,800) just before or on the filing deadline (1 March 2010). As a result of the rush to file, approximately 60 percent of the elections filed had deficient information on initial review, according to data provided by National Defence. The Department extended the deadline to 1 March 2011, but only after the first deadline had passed. It did not communicate this to reservists until May 2010. In our view, if the Department had anticipated the filing problem sooner and extended the deadline before the previous deadline had expired, it would have reduced the number of election deficiencies.

Exhibit 3.2 By March 2010, there was a significant backlog in processing pension buybacks

Stage	# of files March 2009	# of files March 2010
Unopened election: The process was not started, but an application had been received and recorded.	0	2,348
Opened election: The election was reviewed for reasonableness and to determine if priority processing is required.	0	2,553
A deficiency notice was sent to the reservist indicating necessary information was missing.	755	405
Pre-authorized debit payment was started, so the reservist could begin paying for pension buyback—final amounts pending file completion.	228	528
Pending—non-released: A specialist was working on the file to verify data and calculate the buyback amount and cost.	2,233	2,720
The final cost, including lump sum payments, was determined.	73	317
Total arrears in processing pension buybacks	3,289	8,871
Total arrears completed	106	342
Total elections received	3,395	9,213

Source: Unaudited statistical report produced by National Defence

3.30 National Defence informed us that, based on current projections, approximately 3,900 buyback election files will still be outstanding by the year 2014. This means that many reservists could be waiting seven years, or more, to know what pension benefit they can expect and at what cost.

Other pension services are also backlogged

3.31 There is also a problem with the timeliness of benefit-related pension services the Department provides to reservists. As of 31 March 2010, 99 reservists were receiving an annuity, annual allowance, or survivor benefit, and 627 others had received a return of contributions; however, the Department's data indicated that about 2,400 more benefit-related items were outstanding. Most of these related to

- general inquiries (777),
- return of contributions (565), and
- processing of released reservists (627).

3.32 The regulations require that reservists who have not received earnings for 12 months be removed from the Reserve Force Pension Plan, which entails determining how much is owed to them (for example, annuity, allowance, transfer, or return of contributions). We found that the Department has a list of about 1,300 reservists in this category whose benefits had not yet been processed as of 31 March 2010.

Many systems and procedures are not sufficient to deliver pension services

3.33 According to the authorities governing the Reserve Force Pension Plan, the Department must have systems and procedures in place to determine member obligations and entitlements and ensure timely, complete, and accurate pension and benefit services. We found that the systems and procedures in place cannot ensure sound pension administration or eliminate the backlogs.

3.34 Despite the pension module upgrade done in 2007 (the Central Computation Pay System Pension Module Upgrade), the pension processing system is insufficient. It does not incorporate new technology applications, such as web-enabling for self service. The upgrade was intended only as an interim solution, pending the completion of the overall pension modernization. We also found that the system is an old legacy pay system that does not allow customization or quick changes. We noted it took about four years to

implement an important business rule regarding re-enrolment and nine months to change an incorrect rate used in calculating pension buybacks. Management also informed us that those responsible for delivering pension services do not have access to timely pay and pension management reports because of the limitations of the legacy system technology. These factors all contributed to delays in providing effective pension services.

3.35 Also contributing to delays in processing elections was the need to correct errors in the election files that had already been processed. During our audit of the financial statements of the Reserve Force Pension Plan for the 2007–08 and 2008–09 fiscal years, we found a large number of transaction errors; these included data entry errors and a systemic error in the rate used for calculating a buyback. As a result, the Department had to reprocess all of the affected files and make corrections, which took considerable time away from processing the backlogged files. However, at the time of this audit, we noted that management had developed a plan for improving internal control in pension service operations.

3.36 As already noted, adequate pay records do not exist for service provided before 1999. The regulations provide for counting service time when records cannot be found that the Department can do as a last resort. However, the absence of records has had a significant impact on the amount of work a reservist must do in order to file a pension buyback election and on the Department's administrative workload. At first, the onus was on reservists to establish their eligibility and to provide documentation to support a pension buyback. About a year after the pension plan came into force, the Department recognized that reservists were having difficulties and decided that it had a responsibility to provide service records to them, which it began to do in April 2008. This decision helped with the processing of buybacks; in our view, it could have been made sooner.

3.37 In the first three years, given the shortage of staff, inadequate automated systems, and lack of good pay records before 1999, processing buyback elections involved triaging of files—that is, giving priority to ministerial inquiries and to cases of reservists who were about to retire, who died, or who were disabled. The same priority processing approach was applied to pension benefits. As a result, all other reservists had to wait.

3.38 Management provided information on the approach taken to manage and reduce backlogs as of March 2010. They had decided to keep working on backlogged files and training new staff and, if target

reductions were not achieved, more staff would be hired. The intent was to process the more complex (pre-1999) buyback elections before 2014.

3.39 The Department has not yet established standards to be attained for all pension services in order to evaluate current performance. It stated that it has recently been working to improve how it tracks and reports on performance internally. With the existing systems, it cannot determine how long buybacks or pension benefits have been outstanding. In addition, management does not know how long files have been waiting to be processed or what their priority is without opening each and every file to find the information.

3.40 The Department had not posted a full set of standards for expected performance on its website. Instead, it posted the average processing time for high priority cases and informed reservists that high priority was given to files of members who have been released from the Reserves, and that there was no timeline for serving members, since their files would be processed only once all priority files had been completed. Moreover, the Department indicated that the length of the processing times is largely influenced by response time for required information, which places the onus on parties outside the Department, including the reservists themselves. In our view, management's approach did not provide sufficient information to improve operations, or to adequately inform reservists.

Better communication is needed

3.41 Given the creation and implementation of a new pension plan, the complexities of the plan, and the onus placed on the reservists for timely processing of buyback elections, National Defence needs to effectively communicate entitlements and obligations to reservists.

3.42 We reviewed what was done before and after the Reserve Force Pension Plan came into force. We looked at the approach and tools for communication, including websites and pension administration letters, as well as general military messages issued to all reservists. We also reviewed documentation relating to the development of communication strategies and plans.

3.43 We found that National Defence recognized that communication was an issue before the pension plan came into force. A number of specific initiatives were undertaken to inform reservists about the pension plan, including newsletters and multiple personnel briefings for reserve units. The Department recognized that communication was a

continuing challenge; many reservists did not understand the new regulations or their obligations under them, which led to many calls and complaints. Because the Department had limited capacity to respond to member calls and complaints, on 10 May 2010, it issued a general message asking reservists to be patient and exercise restraint in calling Pension Services directly about the status of their file, since those calls were delaying the processing of requests.

3.44 In 2008, a year after the plan came into force, the Chief of Military Personnel (CMP) initiated a communication strategy for both pension plans. However, we found this communication strategy was not fully implemented. The main deliverable was an updated website for the CMP. However, we noted that there were two websites, supported separately by the CMP and Finance and Corporate Services. Although the two websites contained similar information, some sections of the Finance and Corporate Services site were out of date. In addition, information was not presented consistently on the two sites. In our view, this increases the risk of confusion for reservists and consequently risks increasing work, such as responding to member questions or error detection and correction, for those administering the pension plan on a daily basis. We noted that the Department intended to provide reservists with a pension booklet to inform them of their benefits and obligations, but the booklet was not completed.

3.45 When a pension buyback is completed, we found that National Defence informs reservists of the total cost of the buyback, but not its value, that is, the projected increase in monthly pension or the date at which an unreduced pension would be available. Moreover, National Defence does not provide a periodic benefit statement to members of the Reserve Force Pension Plan. An online benefit calculator is available, but its reliability depends on the information the reservist provides. The Department had not assessed ways to improve the effectiveness of the calculator.

3.46 In summary, we did not find a sufficiently integrated approach to communication that focused on the information reservists needed most and the best way for them to receive it. For example, there was no consideration of a single website to efficiently inform reservists of

- what their entitlements and obligations are,
- how they should go about obtaining and meeting them, and
- what they should expect in terms of pension services.

3.47 Our findings on communications with reservists, and in other areas covered by this audit, suggest a combination of factors has made pension services prone to delays and errors in the first three years of operations. These factors include

- inadequate risk mitigation,
- complex plan provisions,
- extensive manual processing,
- inadequate systems and records, and
- understaffing.

3.48 Considering all of our audit findings, we make only one recommendation.

3.49 Recommendation. National Defence should adopt comprehensive measures to improve the management of the Reserve Force Pension Plan. The measures should include a plan for hiring and training staff, system improvements, redesign of administrative processes, performance reporting, and improving communication with reservists, so that reservists receive pension services that meet their needs in a more timely manner.

The Department's response. Agreed. The Department of National Defence acknowledges the observations and the areas for improvement highlighted by the Office of the Auditor General (OAG). Many of the issues identified by the OAG are areas in which the Department has implemented improvements or is planning to introduce improvements with the modernization of pension administration processes and systems. The Department will continue to proceed aggressively while continuing to focus resources on the processing of file backlogs.

Additionally, the Department will continue to focus efforts to develop and enhance the performance management framework for pension services. To this end, transformation of the information provided by this framework into measurable and meaningful service standards and management information will be a priority of the Department during the period of transition to a modernized solution, as the Department will require a performance baseline against which such improvements can be compared.

Conclusion

3.50 We found that National Defence did not adequately implement the Reserve Force Pension Plan. Because its planning lacked a comprehensive and timely risk mitigation approach, the Department underestimated the requirements for service delivery to reservists.

3.51 Despite the requirements in the legislation and regulations, the Department did not have adequate means in place, including resources, and information systems and control procedures, to operate the pension plan when it came into force. The Department has been working to improve administration, but this has not yet translated into improved pension services. Finally, the Department still needs to improve communication and performance reporting.

About the Audit

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by The Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

Objectives

The overall objective of this audit was to determine whether National Defence has adequately implemented the Reserve Force Pension Plan. Our two sub-objectives were to determine whether the Department

- took a project management (or equivalent) approach to planning and implementing a separate pension plan for the Reserve Force; and
- had the necessary means to operate the Reserve Force Pension Plan. “Means” include organizational structure; resources (money, facilities, and qualified people); and supporting information systems and control procedures.

Scope and approach

This audit focused on the Department’s pension administration.

Our scope did not include the Treasury Board of Canada Secretariat, the Public Sector Pension Investment Board, Public Works and Government Services Canada, or the Office of the Superintendent of Financial Institutions. We did not examine the Regular Forces Pension Plan, nor did we examine the cost or design of the Reserve Force Pension Plan. In addition, we did not examine the accuracy and reliability of data contained in the Department’s systems that support pension services. We reviewed the data that the Department supplied and that we included in this chapter, for overall reasonableness.

Our audit work included structured interviews with the current and past managers who were responsible for planning and implementing the Reserve Force Pension Plan. We also met with the Chief of Reserves and Cadets. All interviewees were given the opportunity to review meeting notes and confirm the content. We reviewed relevant legislation and regulations as well as Treasury Board documents. We examined system and process documentation, observed pension operations, and reviewed data that the Department provided.

We did not perform transaction tests and did not examine the allocation of administration costs between the Reserve Force Pension Plan and the Canadian Forces Pension Plan. Lastly, we did not survey reservists.

Criteria

To determine whether National Defence took a project management (or equivalent) approach to planning and implementing a separate pension plan for the Reserve Force, we used the following criteria:	
Criteria	Sources
National Defence adopts project management methods (or equivalent) to planning and implementing a new pension plan.	<ul style="list-style-type: none"> • <i>Canadian Forces Superannuation Act and Reserve Force Pension Plan Regulations</i> • Project Management Policy, Treasury Board, 1994
To determine whether the Department put in place the means necessary for operating the Reserve Force Pension Plan, we used the following criteria:	
Criteria	Sources
<p>The Department has the means necessary to operate the Reserve Force Pension Plan, including the following:</p> <ul style="list-style-type: none"> • organizational structure; • resources (money, facilities, and qualified people); and • supporting information and control systems. 	<ul style="list-style-type: none"> • <i>Canadian Forces Superannuation Act and Reserve Force Pension Plan Regulations</i> • Other sources for assessing performance, including National Defence's policies and procedures for Reserve Force Pension Plan administration.
The Department has procedures for determining member obligations and entitlements according to authorities governing the Reserve Force Pension Plan.	<i>Canadian Forces Superannuation Act and Reserve Force Pension Plan Regulations</i>

Management reviewed and accepted the suitability of the criteria used in the audit.

Period covered by the audit

Our examination concentrated on the period from March 2005 to March 2010. While this was the primary period, it was necessary to go back further in time to understand the genesis of the Reserve Force Pension Plan and how preparation for a pension plan for reservists evolved. The audit work was substantially completed by 30 November 2010.

Audit team

Assistant Auditor General: Jerome Berthelette

Lead Principal: Tom Wileman

Principal: Trevor Shaw

Marie-Josée Bouffard

Steven Mariani

Robyn Meikle

Stephanie Taylor

For information, please contact Communications at 613-995-3708 or 1-888-761-5953 (toll-free).

Appendix List of recommendations

The following is the recommendation found in Chapter 3. The number in front of the recommendation indicates the paragraph where it appears in the chapter.

Recommendation	Response
<p>3.49 National Defence should adopt comprehensive measures to improve the management of the Reserve Force Pension Plan. The measures should include a plan for hiring and training staff, system improvements, redesign of administrative processes, performance reporting, and improving communication with reservists, so that reservists receive pension services that meet their needs in a more timely manner.</p>	<p>Agreed. The Department of National Defence acknowledges the observations and the areas for improvement highlighted by the Office of the Auditor General (OAG). Many of the issues identified by the OAG are areas in which the Department has implemented improvements or is planning to introduce improvements with the modernization of pension administration processes and systems. The Department will continue to proceed aggressively while continuing to focus resources on the processing of file backlogs.</p> <p>Additionally, the Department will continue to focus efforts to develop and enhance the performance management framework for pension services. To this end, transformation of the information provided by this framework into measurable and meaningful service standards and management information will be a priority of the Department during the period of transition to a modernized solution, as the Department will require a performance baseline against which such improvements can be compared.</p>

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