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Chief Review Services Chef - Service d'examen

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Audit of Canadian Forces Pension Plans Administrative Expenses

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Canada 

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Acronyms and Abbreviations

ADM(Fin CS)	Assistant Deputy Minister (Finance and Corporate Services)
CF	Canadian Forces
CFPP	Canadian Forces Pension Plan
CFPP Compt	Canadian Forces Pension Plan Comptroller
CFSA	<i>Canadian Forces Superannuation Act</i>
CMP	Chief Military Personnel
CRS	Chief Review Services
DCFPS	Director Canadian Forces Pension Services
DG Fin Ops	Director General Financial Operations
DMPAP	Director Military Pay and Accounts Processing
DND	Department of National Defence
DRMIS	Defence Resource Management Information System
FAA	<i>Financial Administration Act</i>
FMAS	Financial Managerial Accounting System
FY	Fiscal Year
MOU	Memorandum of Understanding
O&M	Operations and Maintenance
OSFI	Office of the Superintendent of Financial Institutions
PS	Pension Services
PSP Investments	Public Sector Pension Investment Board
PSPP	Public Service Pension Plan
PWGSC	Public Works and Government Services Canada
RCMP	Royal Canadian Mounted Police
RCMPPP	Royal Canadian Mounted Police Pension Plan
RFPP	Reserve Forces Pension Plan
SLA	Service-Level Agreement
SWE	Salary Wage Envelope
TB	Treasury Board of Canada

Results in Brief

As a condition of the 2008 approval of funding for administrative expenses, Chief Review Services (CRS) audited the administrative expenses charged to the Canadian Forces Pension Plan (CFPP) and Reserve Forces Pension Plan (RFPP) for fiscal years (FY) 2008/09 and 2009/10.

The overall assessment of the audit is that management has implemented policies, practices and procedures that are sufficient to ensure that CFPP and RFPP expenses adhere to the pertinent legislation, policies, and regulations. Nevertheless, some minor areas for improvement were noted:

- The allocation of work could be improved to alleviate bottlenecks and to avoid having key functions being performed by one person with no back up;
- Interpretation of the Treasury Board of Canada (TB) charging principles for pension plans should be more fully documented and communicated to Director Canadian Forces Pension Services (DCFPS) staff; and
- A more structured methodology should be developed to allocate some expenses between the CFPP and the RFPP.

In addition to developing an action plan that will address the issues identified in this audit, management also agrees that certain groups have a vested interest in the administration of the CF pension plan. It is therefore recommended that management communicate with these groups to share the summary results of the audit and to provide information as to where a copy of the full report can be accessed.

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

Overall Assessment

The current management control framework includes policies, practices, and procedures which ensure that CFPP/RFPP administrative expenses adhere to pertinent legislation, policies and regulations.

Background

The Canadian Forces Pension Plans

The CFPP provides pension benefits to all members of the Regular Force, while beginning March 1, 2007, the RFPP provides pension benefits to eligible members of the Reserve Force. In FY 2007/08, the two pension plans (the “Canadian Forces (CF) plans”) provided benefits to 108,799 plan annuitants, including 85,446 retired members and 23,353 survivors. As well, there were 87,532 contributing members, including 66,659 Regular Force and 20,873 Reserve Force members.¹ At year end FY 2007/08, the CF plans included assets totalling \$52 billion. Benefits paid during that FY totalled \$2.261 billion. Both assets and payments have increased annually between FY 2005/06 and FY 2007/08 as shown in Figures 1 and 2, respectively.

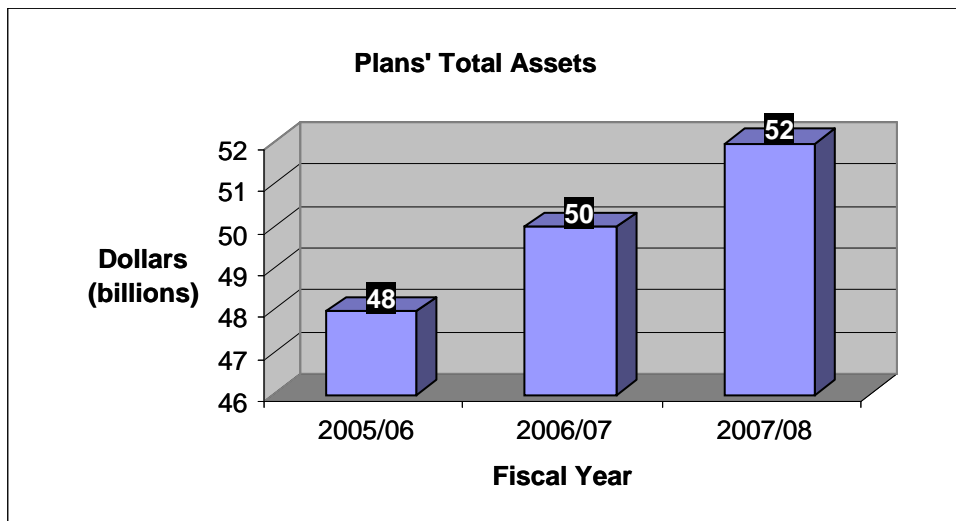


Figure 1. Plans' Assets. CF Plans' assets have increased by \$2 billion annually from \$48 billion in FY 2005/06 to \$52 billion in FY 2007/08. The data is summarized in Table 1.

Fiscal Year	Plans' Total Assets
2005/06	\$48 billion
2006/07	\$50 billion
2007/08	\$52 billion

Table 1. Plans' Total Assets.

¹ Annual Report for the Canadian Forces Pension Plans, 2007/08.

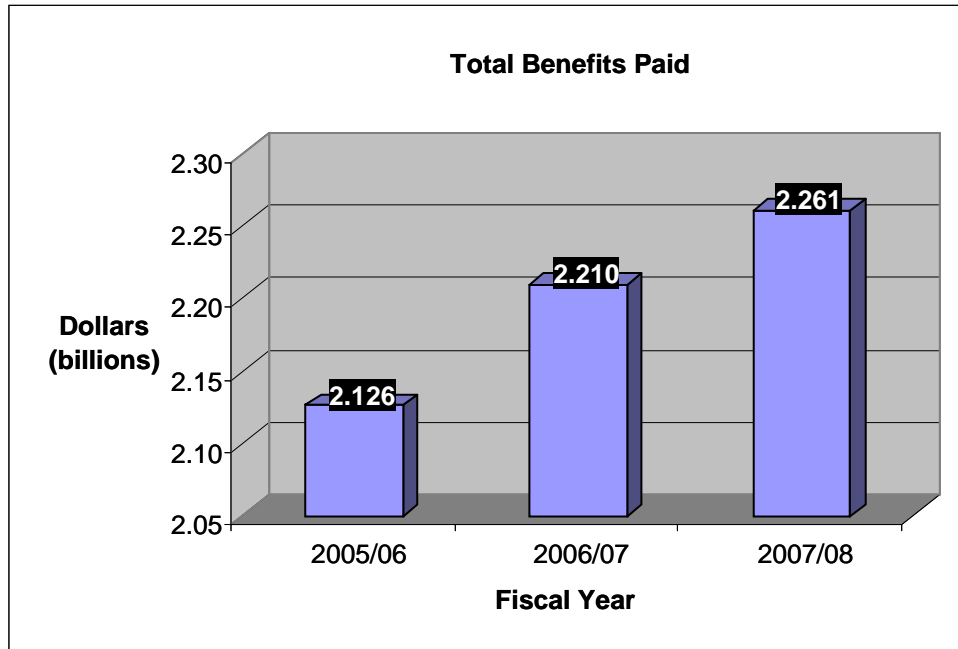


Figure 2. Benefits Paid to Annuitants. The benefits paid increased by \$84 million in FY 2006/07 and \$51 million in FY 2007/08. The data is summarized in Table 2.

Fiscal Year	Total Benefits Paid
2005/06	\$2.126 billion
2006/07	\$2.210 billion
2007/08	\$2.261 billion

Table 2. Total Benefits Paid.

Administration of the Plans

A number of organizations provide services necessary in the administration of the plans:

Director Canadian Forces Pension Services. DCFPS administers pension and survivor benefits for Regular Force and Reserve Force members, retirees and survivors, and provides pension advice to serving members. It is responsible for calculating pension benefits under the *Canadian Forces Superannuation Act* (CFSA).

Public Works and Government Services Canada (PWGSC). Under a memorandum of understanding (MOU) with the Department of National Defence (DND), PWGSC provides annuitant services to the CF plans. Specifically, PWGSC is responsible for making recurring pension payments and for administering the applicable deductions and tax filings for annuitants.

Office of the Superintendent of Financial Institutions (OSFI). OSFI provides actuarial valuations services to the plans.

Public Sector Pension Investment Board (PSP Investments). PSP Investments manages the CF plans' portfolio of investments.

Administrative Expenses

Consistent with the CFSA, related administrative expenses incurred by DCFPS, PWGSC, OSFI and PSP Investments are charged to the CF plans. Funding to cover the pension plans' expenses is approved triennially based on a three-year budget. Administrative expenses incurred by PSP Investments are paid directly by TB and do not form part of the approved funding provided to DND for administration of the CF plans.

The charging principles established by the TB govern the types of administrative expenses that can be charged to the CF plans. These principles provide general rules and examples, and are used for determining the chargeability of expenses for the Public Service Pension Plan (PSPP), the RCMP Pension Plan (RCMPPP) as well as the CF plans.

Table 3 summarizes the administrative expenses for the CF plans from FY 2006/07 to FY 2009/10.

	2006/07	2007/08	2008/09	2009/10
	(in thousands)	(in thousands)	(in thousands)	(in thousands)
DCFPS Personnel Costs	8,370	9,095	11,564	13,671
DCFPS O&M	2,964	3,352	3,528	3,526
DCFPS Total	11,334	12,447	15,092	17,197
PWGSC	3,810	3,711	4,202	6,905
OSFI	477	537	556	753
Sub-Total	15,621	16,695	19,850	24,855
PSP Investments	21,000	27,000	28,000	26,000
Total	\$36,621	\$43,695	\$47,850	\$50,855

Table 3. Administrative Expenses.

The administrative expenses charged to the CF plans comprise the following items:

DCFPS. Expenses directly attributable to administration of the CF plans including salaries, benefits, accommodation and other operating expenses as well as expenses related to services, such as information management/information technology, provided by other DND directorates. Expenses also include some fees that have been incurred with respect to the Government of Canada Pension Modernization Project. This project proposes transferring the CF Plans' administration to PWGSC. According to DCFPS management, this will occur in 2014.

PWGSC and OSFI. Administrative costs associated with the CF plans, including salaries and benefits, systems maintenance and development, and accommodation.

PSP Investments. Salaries, benefits and other operating expenses, as well as external investment management fees. These expenses are reimbursed directly by TB, not by DCFPS.

While many aspects of the plans are administered jointly, the CFPP and the RFPP each issue independent financial statements. Where expenses incurred can be specifically attributed to one of the two CF plans, they are charged accordingly.² Expenses which cannot be specifically attributed to one of the plans are pro-rated between them.

Benchmarking Study and Performance Measurements

CEM Benchmarking Inc. provides benchmarking services. Several Canadian pension plan organizations are clients of CEM Benchmarking Inc., including the CF plans, the PSPP, the Canada Post Pension Plan, the British Columbia Pension Corporation and the Ontario Teachers' Pension Plan, among many others. CEM assigns each organization to a peer group based on the pension plan size and type (i.e., defined benefit plan), and prepares an annual comparative report of its performance. The February 8, 2010 benchmarking report comparing the CF plans' performance during FY 2008/09 to their peer group indicates that:

- The adjusted administrative cost per member for the CF plans was \$72, which is below the peer group median of \$92;
- The administrative costs for the CF plans as a percentage of total assets was 0.03 percent, which is lower than the peer group median of 0.10 percent;
- The CF plans were consistent with their peers in that the largest portion of their budget, 52 percent, is spent to process member transactions;
- The CF plans had significantly fewer transactions per member than their peers, most notably in respect of communications, counselling, and governance; and
- The CF plans' total service score, at 48 out of a possible 100, was significantly lower than the peer group median of 81. The CF plans' low score seems to reflect the fact that it does not provide some services provided by peers, such as online access to complete or amend information, and access to an annual statement of future pension benefits. As well, performance in some areas, such as the average wait time when calling for information and the amount of time elapsed before an annuitant receives his/her first pension cheque, is not as favourable as for peer organizations.

In summary, the benchmarking report indicates that, compared to their peers, the administrative cost is lower for the CF plans. This appears to be directly related to the fewer number of services provided to their members.

DCFPS has developed performance measurements that are included in the FY 2007/08 annual report.³ The target for one of these performance measures is that adjusted pension administration costs should be within 10 percent of the peer average. Based on the CEM benchmarking report, DCFPS has met this goal.

² For example, Salary Wage Envelope (SWE) costs for the section dealing exclusively with the processing of Reserves' past service buy-backs are charged to the RFPP while office supplies are pro-rated between the two plans.

³ The annual report for FY 2007/08 was the most recent report available at the time of the audit.

Audit Details

Objective

The 2008 approval of funding for administrative expenses was granted on the condition that DND complete an internal performance audit by fall 2010.

To comply with this requirement, the primary objective of this audit is to ensure that CFPP/RFPP expenses adhere to the pertinent legislation, policies, and regulations.

A subsequent CRS audit, currently planned for FY 2011/12 will further evaluate the efficiency of the systems and procedures in place to administer the CF plans.

Scope

The scope of the audit included:

- All administrative expenses (including travel and training) for FY 2008/09 and FY 2009/10; and
- Travel and training expenses for FY 2007/08 as these were identified as risk areas by DCFPS in initial planning meetings.

The scope was limited in the following ways:

- PWGSC and OSFI expenses are charged based on a cost recovery agreement with DCFPS. CRS confirmed that expensed amounts matched the invoiced values and, in the case of OSFI, that the attribution of expenses to the CF plans was correct; however, it was not possible to determine the accuracy and validity of the invoiced amounts.
- Expenses for PSP Investments were not examined as these are paid directly by TB. Notwithstanding, the amounts included on the CF Plans financial statements agree with the amounts on the PSP Investments audited financial statements for FYs 2007/08 and 2008/09.
- The scope included the allocation of expenses between the two pension plans (i.e., the CFPP and the RFPP). However, the CFPP is comprised of two funds, the Canadian Forces Superannuation Account and the Canadian Forces Pension Fund (introduced in April 2000). The allocation of CFPP administrative expenses between these two funds was not included in the audit scope.

Methodology

The methodology included:

- Interviews and discussions with DCFPS staff;
- Data analysis;
- Review of management practices and processes; and
- Confirmation of OSFI and PSP invoiced amounts as well as examination of supporting documentation relating to 39 other transactions. A combination of targeted testing (based on dollar values and risk) and random sampling was used to select these transactions.



Findings and Recommendations

Overtime and Workload Allocation

Since September 2009, all overtime has been approved in advance and is reviewed before being expensed against the CF plans. Notwithstanding, the distribution of work among staff causes concern that there is over-dependence on one key staff member.

Expectations

The expectation was that all overtime would be pre-approved and reviewed once incurred in order to ensure that actual hours worked did not significantly exceed the approved amount. It was further expected that the pre-approval would include an explanation of the nature of the work to be performed and justification for its requirement. This expectation is pursuant to the TB Directive on Terms and Conditions of Employment, which outlines the conditions that are required to be in place in order to compensate an employee for overtime. As DCFPS is currently dealing with a backlog of past service buy-back requests from reservists, it was recognized that some overtime might be unavoidable.

Findings

Pre-approval and post-verification review had been completed for all sampled overtime transactions occurring after September 2009. Management indicated in preliminary planning meetings that appropriate controls were not in place prior to this date, and that steps had been taken to improve them.

The review of overtime highlighted the fact that currently only one individual is assigned to review reserve buy-back files. Management indicated that, in their view, by having the same individual review all files, there is reduced risk that errors will go undetected. However, the contrary could be true if the workload for this individual remains high. Given that there are currently 30 people in the section responsible for the calculation of the reserve buy-back files, and that this number is expected to grow to 50 in mid-FY 2010/11, this approach does not appear to be sustainable nor does it include any contingency planning. Management has indicated that an additional resource may be available for this function by April 2011.

Recommendation

Management should review the workload allocation and the strategy of having only one person performing the file review process. Training one or two additional resources as soon as possible to perform the review is advisable.

OPI: ADM(Fin CS)/DG Fin Ops

Supporting Documentation

Purchasing and contracting was competitive and in compliance with delegated authorities. With one exception, supporting documentation was available for reviewed payments.

Expectations

The expectations were that purchasing and contracting would be in compliance with delegated authorities through the accurate completion and documentation of Section 32 of the *Financial Administration Act* (FAA). It was also expected that the purchasing and contracting would be competitive and quotes would be maintained on file. Further, it was expected that proper procedures would be adhered to with respect to call-ups to standing offers, contracts, MOUs, and service-level agreements (SLA), as detailed in the DND policies and directives governing contracting. In addition, it was expected that expenses would have Section 34 of the FAA completed, along with the required supporting documentation, and that the expense would be properly recorded in the Financial Managerial Accounting System (FMAS).

Findings

The sample testing indicated that purchasing and contracting was in compliance with delegated authorities, was competitive, and in cases where quotes were required, they were on file. DCFPS purchasing and contracting is primarily achieved through call-ups to standing offers and SLAs with other organizations that provide services for the CF plans.

Supporting documentation was available for all reviewed transactions with one exception. In this case, DCFPS had reimbursed Director Military Pay and Accounts Processing (DMPAP) without receiving the supporting documentation required by the SLA. It is important to ensure that substantiating documentation is on file for these types of intra-departmental charges in order to demonstrate that pension administration funding is only being used for its designated purpose.

Recommendation

Additional care should be taken to ensure that sufficient documentation is on file to support all reimbursements to other departmental groups.

OPI: ADM(Fin CS)/DG Fin Ops

Interpretation and Communication of Charging Principles

In the review of sample transactions, there were no instances where charges did not comply with the TB charging principles. However, Management should document its interpretation of these principles and ensure they are communicated. This would reduce the risk of future errors or inconsistencies.

Expectations

It was expected that all DCFPS staff would have an awareness of the TB charging principles and that Management would have provided documentation to clarify areas that might be ambiguous or open to interpretation. It was also expected that all administrative expenses charged to the CF plans would comply with these principles.

Findings

The following findings were noted:

- Employees, including Section Managers in DCFPS, are not aware of the TB charging principles. This could increase the risk that unallowable activities are being charged to the CF plans.
- In some cases, the charging principles do not provide clear guidance. Although the DCFPS Director, Comptroller, and Section Head have established their own interpretations of gray areas, such as whether development of an operating budget would be considered advice to senior management, or part of program management and delivery,⁴ these interpretations have not been formally documented and communicated. This may lead to inconsistencies in the event of turnover of key employees.
- Although no instances were observed where DCFPS's interpretation of the principles was clearly non-compliant, without the proper documentation some interpretations might prove difficult to defend.
- In discussions with Management, it was noted that at the time of the audit, DCFPS was participating in a working group consisting of RCMPPP, PSPP, and TB. This group was formed to update the TB charging principles in an effort to provide greater clarity.

Recommendation

Interpretations and common practices with respect to the TB charging principles should be formally documented and communicated. The efforts of the interdepartmental working group should assist in this activity.

OPI: ADM(Fin CS)/DG Fin Ops

⁴ Advice to senior management is not chargeable to the plans, while program management and delivery is chargeable. DCFPS has charged budget development to the plans, arguing that this activity is a necessary part of program management and delivery. However, the principles indicate that preparation of funding requests, which logically requires preparation of a budget, is considered advice to senior management.

Allocation of Expenses

DCFPS has developed three methods to allocate costs between the CFPP and the RFPP. One of these methods would benefit from increased rigour.

Expectations

It was expected that the allocation of the expenses between the CFPP and the RFPP would be sound, and that policies and documentation would be available to support the selected method of allocation.

Findings

DCFPS has developed three methods for allocating those expenses that are not solely associated with either the CFPP or the RFPP. These expenses are prorated between the two plans based on either:

1. The number of plan members (e.g., office supplies);
2. The number of annuitants (e.g., PWGSC expenses); or
3. Management's estimate of relative effort (e.g., SWE for the Pension Divisions).

Each method is applied to approximately one-third of the expenses requiring allocation. As there is no consistent method for determining the relative effort (i.e., method 3), these estimates are not determined in a consistent fashion by all section managers. While this does not impact the overall legitimacy of the expense, these expenses could be more accurately pro-rated between the two plans.

Recommendation

A more precise and consistent method for determining the estimated effort between the CF plans should be developed.

Audit Note: Management indicated that an improved system for tracking the estimated effort has been developed and implemented for expenses relating to FY 2010/11.

OPI: ADM(Fin CS)/DG Fin Ops

Annex A—Management Action Plan

Overtime and Workload Allocation

CRS Recommendation

1. Management should review the workload allocation and the strategy of having only one person performing the file review process. Training one or two additional resources as soon as possible to perform the review is advisable.

Management Action

Agreed. There are two other long-service PS 3 employees who also do file reviews. One returns from full-time French language training in December 2010 and the other returns April 2011. They are on French language training as part of our succession planning which will ensure the availability of adequate back up on a continuous basis.

OPI: ADM(Fin CS)/DG Fin Ops/DCFPS/PS 3

Target Date: April 2011

Supporting Documentation

CRS Recommendation

2. Additional care should be taken to ensure that sufficient documentation is on file to support all reimbursements to other departmental groups.

Management Action

Agreed. In order to increase payment control and ensure that payments comply with the TB charging principles and section 34 of the FAA, the following process was implemented effective April 2010:

- Prior to paying for work performed for DCFPS by other departmental groups, DCFPS verifies that amounts being claimed are supported by SWE reports from DRMIS or copies of the FAA section 34 verifications for any O&M charges and the charges are in accordance with the SLA signed with that group.
- At each year-end, the process of verification and reconciliation of expenditures charged to the pension plan will be performed. In case of discrepancies between actual and previously submitted expenditure reimbursement requests, the amended system adjustment entries will be processed before the close of the old year.
- DCFPS will maintain adequate supporting source data records for system entries and departmental groups will retain original copies of all items chargeable to the CF Plans.

OPI: ADM(Fin CS)/DG Fin Ops/DCFPS/CFPP Compt

Target Date: April 2010 (implemented FY 2010/11)



Interpretation and Communication of Charging Principles

CRS Recommendation

3. Interpretations and common practices with respect to the TB charging principles should be formally documented and communicated. The efforts of the interdepartmental working group should assist in this activity.

Management Action

Agreed. As a lead-up to all negotiations of SLAs for departmental groups in FY 2011/12, DCFPS will be issuing clarification to those areas and functions where cross-over between chargeable and non-chargeable activities occurs, and will continue working with the interdepartmental working group to renew existing principles. Furthermore, these charging principles will be shared with DCFPS staff who have supervisory responsibilities.

OPI: ADM(Fin CS)/DG Fin Ops/DCFPS/CFPP Compt

Target Date: March 2011

Allocation of Expenses

CRS Recommendation

4. A more precise and consistent method for determining the estimated effort between the CF plans should be developed.

Audit Note: Management indicated that an improved system for tracking the estimated effort has been developed and implemented for expenses relating to FY 2010/11.

Management Action

The process to allocate expenses between the CF plans has been reviewed. An improved system for tracking the estimated effort has been developed and implemented for FY 2010/11.

Section managers' allocation will be analyzed and finalized in March 2011. Cost share of CFPP and RFPP will be recorded on the actual direct efforts in the current year.

Achieving accuracy and consistency in cost allocation between the CF plans is one of the priorities of DCFPS.

OPI: ADM(Fin CS)/DG Fin Ops/DCFPS/CFPP Compt

Target Date: March 2011

Communication of Results

CRS Recommendation

5. Management should communicate the summary results of the audit to the CF plans stakeholders and provide them with information as to where a copy of the full report can be accessed.

Management Action

With the assistance of CMP, management will consider various options and select the most appropriate method to communicate the results of the audit to the pension plans contributors and annuitants, including publication on departmental website and inclusion of audit results in the Annual Report of the Pension Plans.

OPI: ADM(Fin CS)/DG Fin Ops/DCFPS

Target Date: June 2011



Annex B—Audit Criteria

Objective

Ensure that the CFPP/RFPP expenses are in adherence with the pertinent legislation, policies, and regulations.

Criteria

- Purchasing and contracting are in compliance with delegated authorities, competitive, and follow proper procedures;
- Expenses, such as overtime and travel, are justified, documented and authorized;
- Expenses are in accordance with the TB charging principles;
- Section 34 is completed for all expenses by an appropriate individual, based on sufficient information, and expenditures are properly recorded in FMAS; and
- The allocation of expense between the CFPP and the RFPP is reasonable, appropriate, and the calculations are accurate.

