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Audit and Ethics  
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Direction générale de la  
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**2004-709**

**Final report**

**Audit of the Administrative Costs Related to the Public Service  
Superannuation Account**

**2006-09-08**

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## **Executive Summary**

### **Authority for the Project**

The Audit of the Administration Costs Related to the Public Service Superannuation Account (PSSA) was requested by the former Assistant Deputy Minister, Finance, Accounting, Banking and Compensation Sector. Concerns also surfaced regarding administrative costs charged to the Royal Canadian Mounted Police's Pension Plan. The project was approved by the department's Audit and Ethics Committee (AEC) as part of the 2004-05 Internal Audit Services Directorate Business Plan.

### **Objectives**

The audit objectives were to assess the:

- the appropriateness and accuracy of administrative costs charged to the PSSA; and
- the adequacy of payment controls over the Superannuation payment process.

### **Scope and Approach**

The scope of this audit included an examination of a sample of administrative costs charged to the PSSA for 2003-04. The examination of the administrative costs included reviewing expenditures both at National Headquarters and in Shediac. The audit was conducted through interviews and documentation review. Interviews with directors and managers focused on verifying the process and procedures. Documentation and transaction review included the selection of monthly salary reports and operating and maintenance (O&M) expenditure transactions for testing to original documents to determine that they relate to approved PSSA projects.

The audit also included an assessment of payment controls over the Superannuation payment process related to Common Departmental Financial System (CDFS) and Annuitant System payments. The examination was limited to verifying that signatures under Sections 34 and 33 of the Financial Administration Act, on a sample of transactions, were in accordance with the delegated financial signing authorities.

### **Background**

Since 1954, an account has been established in the Accounts of Canada to record financial transactions of the Public Service Superannuation Account. The account recorded contributions

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from employees and employers, interest credited to the Account and disbursements made to beneficiaries.

With the passing of Pension Reform Legislation (Bill C-78) in September 1999, a new Pension Fund was established to record all pension financial transactions occurring after March 31, 2000. As well the Pension Investment Board was created with the mandate to invest the net contributions in the capital markets.

Consequently, PWGSC's compensation systems and operational procedures were revised to comply with the legislation. The Public Service Superannuation Account held in the Accounts of Canada records transactions such as contributions, benefits, and transfers that pertain to pre-April 2000 service. Transactions pertaining to post-March 31, 2000 service are recorded in the Public Service Pension Fund through the Public Service Pension Fund Account, which is also held in the Accounts of Canada. The net amount of contributions less benefits and payments is regularly transferred to Public Sector Pension Investments for investment in the capital markets. As at March 31, 2004, the net asset of the Plan is approximately \$93 billion.

## **Conclusions**

During the period examined, the administrative costs were appropriately and accurately charged to the PSSA. However, payment controls over the Superannuation payment process were not exercised in accordance with delegated departmental signing authorities.

## **Recommendations**

It is recommended that the Assistant Deputy Minister, Accounting, Banking and Compensation Branch:

1. *Review delegated financial signing authorities to ensure the authorities are up-to-date and provide the proper segregation of duties.*
2. *Ensure that transactions are properly signed under Sections 34 and 33 of the Financial Administration Act. Employees exercising this authority should understand their obligations and responsibilities for Annuitant System and CDFS Payments.*
3. *Ensure that up-to-date signature specimens are maintained for Annuitant System and CDFS Payments.*
4. *As part of the account verification process, implement a quality assurance process to review the adequacy of Section 34 of the Financial Administration Act.*

## **1 Introduction**

### **1.1 Authority for the Project**

The Audit of the Administration Costs Related to the Public Service Superannuation Account (PSSA) was requested by the Assistant Deputy Minister, Finance, Accounting, Banking and Compensation Sector and approved by the department's Audit and Ethics Committee (AEC) as part of the 2004-05 Internal Audit Services Directorate Business Plan.

### **1.2 Objectives**

The audit objectives were to assess the adequacy of:

- the appropriateness and accuracy of administrative costs charged to the PSSA; and
- the adequacy of payment controls over the Superannuation payment process.

### **1.3 Scope**

The scope of this audit included an examination of the administrative costs charged to the PSSA for 2003-04. The examination of the administrative costs included reviewing expenditures both at National Headquarters and in Shediac. As well, the audit also included an assessment of payment controls over the Superannuation payment process which was limited to verifying that signatures under Section 34 of the Financial Administration Act, on a sample of transactions, were in accordance with delegated financial signing authorities.

There was a further examination of the payment controls related to the Common Departmental Financial System (CDFFS) and the Annuitant System payments. The examination was limited to verifying that signatures under Sections 34 and 33 of the Financial Administration Act, on a sample of transactions, were in accordance with the delegated financial signing authorities.

### **1.4 Background**

Since 1954, an account has been established in the Accounts of Canada to record financial transactions of the Public Service Superannuation Account (PSSA). The account recorded contributions from employees and employers, interest credited to the Account and disbursements made to beneficiaries.

With the passing of Pension Reform Legislation (Bill C-78) in September 1999, a new Pension Fund was established to record all pension financial transactions occurring after March 31, 2000. As well the Pension Investment Board was created with the mandate to invest the net contributions in the capital markets.

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## **2 Findings and Conclusions**

Section 2 contains two sections: Section 2.1 provides key findings, conclusions and recommendations related to the appropriateness and accuracy of administrative costs charged to the PSSA. Section 2.2 reports on the adequacy of payments controls over the Superannuation payment process.

### **2.1 Accuracy of Administrative Costs Charged to the PSSA**

#### **2.1.1 Process and Procedures**

Managers of various projects being charged to the PSSA review a monthly summary of project expenditures and sign the related invoices under Section 34. The Manager of the Pension Fund in the Financial Administration Division conducts an account verification under Section 33.

The Pension Funds Financial Administration Division, Pension Services Directorate, conducts quarterly reviews of the project's financial activity/progress and takes the necessary corrective action. The Pension Services Directorate also reviews future funding requirements on an ongoing basis and ensures that Treasury Board Submissions are adjusted accordingly.

#### **2.1.2 Findings**

The audit revealed that all projects, had been properly planned and reviewed by PSSA management and approved by the Treasury Board. Supporting documents for O&M expenditures were examined on a sample basis. The examination determined that the expenditures were related to the approved projects.

With regards to salary expenditures, interviews revealed that the Program Director approves the financial forecast reports, but does not approve the actual salary costs for each project. However, Public Works and Government Canada's (PWGSC) Financial Services compares the forecasted and actual salary costs. Discrepancies are noted, reviewed and discussed with the program directors.

Salary costs for PWGSC financial services are billed on a quarterly basis, however, there appears to be no reporting system identifying actual time spent on pension vs. regular pay activities. Currently, costs are allocated on a percentage basis. For example, if staff members are working on two projects, salary costs are allocated on a 50-50 basis.

The audit of payment controls was limited to verifying that the signatures under Section 34 on a sample of transactions both at National Headquarters and in Shediac were in accordance with the delegated financial signing authorities. The audit revealed that the

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appropriate Section 34 signatures were on most payment documents. However, signing authorities should be reviewed to ensure that they are up-to-date and provide proper segregation of duties.

### 2.1.3 Conclusion

The audit determined that the administrative costs were appropriately and accurately charged to the PSSA. There are no recommendations.

## 2.2 Adequacy of Payment Controls over Common Departmental Financial System and Annuitant System Payments

### 2.2.1 Approach

The audit was conducted through interviews and documentation review. Interviews with directors and managers focused on verifying the process and procedures related to the CDFS and Annuitant System payments. Further, documentation and transaction review included a random sample of 25 transactions for each type of payment, for a total of 100 transactions, to test that Sections 34 and 33 of the FAA had been signed in accordance with the delegated departmental signing authorities. The transactions were selected from the 2003/04 PSSA Administration Costs Summary Report.

Expenditures	2003/04 (000\$)
Salaries	\$28,910,100
Operation and Maintenance	\$25,033,900
<b>Total</b>	<b>\$53,944,000</b>

### 2.2.2 Process and Procedures

The procedures for processing the various types of payments through the CDFS system are as follows:

**Return of Contributions Payments** - Contribution Accounting Specialists in Accounting Service gather the client information and confirm that the required data is accurate and complete, verify client information to the contributor system and generate a printout list of PSSA contributions. The required information is then inputted into CDFS and approved under Section 34. The Verification Specialists in Accounting Services verify the information in CDFS and approve the payment under Section 33.

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**Supplementary Death Benefit Payments** - Benefit and Contributor Specialists in Benefit Services gather the client information and confirm that the required data is accurate and complete, verify client information to the Pension Support System, prepare a requisition for payment, approve the requisition under Section 34 and input the required information into CDFS. The requisition is forwarded to Pension Fund Accounting in Accounting Services, the CDFS information is verified and the Standard Payment System payment number is recorded on the requisition. The Verification Specialists in Benefits Services verify the information and approve the requisition under Section 33 of the FAA.

**Miscellaneous Payments** - Benefit and Contributor Specialists in Benefit Services or Contribution Accounting Specialists in Accounting Services gather information for various types of payments and input the information into the CDFS and approve the payment under Section 34. The process for approval under Section 33 is similar to the Supplementary Death Benefit Payments.

The procedures for processing payments through the Annuitant System is as follows:

**Annuitant Payments:** The Benefit Specialists within Program Service Delivery gather annuitant information and confirm that the required data is accurate and complete as well as input the required information into the annuitant system. Once the information is verified, the payment is authorized under Section 34 and submitted for processing. Approved client files are transferred to the respective verification unit within Program Service Delivery. The Verification Specialists verify the information in the Annuitant System and approve the payment under Section 33.

### **2.2.3 Findings**

The following tables summarize the results of the examination of the payment controls related to the CDFS and Annuitant System payments. The examination was limited to verifying that the signatures under Sections 34 and 33 on a sample of transactions were in accordance with the delegated departmental signing authorities. The transaction testing revealed that there were a high percentage of specimen signatures missing and incidents where transactions were not being properly signed under Sections 34 and 33 of the FAA with respect to sample tested.

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**CDFS - Return of Contributions (ROC)**

<b>Number of ROC payments where:</b>	<b>#</b>	<b>Rate</b>
1. There was no Section 34 signature for the amount paid	0	0%
2. There was no specimen signature available for verification under Section 34	19	86%
3. There was no Section 33 signature for the amount paid	0	0%
4. There was no specimen signature available for verification under Section 33	8	36%
<b>Total Payments Tested (3 files were in Archives)</b>	<b>22</b>	

**CDFS - Supplementary Death Benefits (SDB)**

<b>Number of SDB payments where:</b>	<b>#</b>	<b>Rate</b>
1. There was no Section 34 signature for the amount paid	1	4%
2. There was no specimen signature available for verification under Section 34	25	100%
3. There was no Section 33 signature for the amount paid	12	48%
4. There was no specimen signature available for verification under Section 33	0	0%
<b>Total Payments Tested</b>	<b>25</b>	

**CDFS - Miscellaneous Payments**

<b>Number of Miscellaneous payments where:</b>	<b>#</b>	<b>Rate</b>
1. There was no Section 34 signature for the amount paid	11	44%
2. There was no specimen signature available for verification under Section 34	14	56%
3. There was no Section 33 signature for the amount paid	11	44%
4. There was no specimen signature available for verification under Section 33	14	56%
<b>Total payments tested</b>	<b>25</b>	

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**Annuitant Payments**

<b>Number of Miscellaneous payments where:</b>	<b>#</b>	<b>Rate</b>
1. There was no Section 34 signature for the amount paid	19	76%
2. There was no specimen signature available for verification under Section 34	25	100%
3. There was no Section 33 signature for the amount paid	19	76%
4. There was no specimen signature available for verification under Section 33	7	28%
<b>Total payments tested</b>	<b>25</b>	

**2.2.4 Conclusion**

Transaction testing related to CDFS and Annuitant System payments revealed that there was a high percentage of specimen signatures missing and incidents where transactions were not being properly signed under Sections 34 and 33 of the Financial Administration Act in accordance with the delegated departmental signing authorities.

### **3 Recommendations**

It is recommended that the Assistant Deputy Minister, Accounting, Banking and Compensation Branch:

1. *Review delegated financial signing authorities to ensure the authorities are up-to-date and provide the proper segregation of duties.*
2. *Ensure that transactions are properly signed under Sections 34 and 33 of the Financial Administration Act. Employees exercising this authority should understand their obligations and responsibilities for Annuitant System and CDFS Payments.*
3. *Ensure that up-to-date signature specimens are maintained for Annuitant System and CDFS Payments.*
4. *As part of the account verification process, implement a quality assurance process to review the adequacy of Section 34 of the Financial Administration Act.*