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

NOVEMBER

Chapter 9
Pension and Insurance Administration—
Royal Canadian Mounted Police



Office of the Auditor General of Canada

The November 2006 Report of the Auditor General of Canada comprises Matters of Special Importance—2006, Main Points—Chapters 1 to 12, Appendices, An Overview of the Federal Government's Expenditure Management System, and 12 chapters. The main table of contents is found at the end of this publication.

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Chapter

9

Pension and Insurance Administration
Royal Canadian Mounted Police

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.

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Pension and Insurance Administration

Royal Canadian Mounted Police

Main Points

What we examined

In 2003, allegations of fraud and abuse in the management of the Royal Canadian Mounted Police's pension and insurance plans triggered an internal audit, which was followed by a criminal investigation by the Ottawa Police Service (OPS). In June 2005, the OPS announced that its 15-month investigation had found abuses of the pension and insurance plans, nepotism, wasteful spending, and override of controls by management. Significant unnecessary or wasteful expenditures resulted, including money spent for work of little value. The Crown counsel advised that there was "no reasonable prospect of conviction on criminal charges". However, two senior officials of the Royal Canadian Mounted Police (RCMP) resigned, and the RCMP considered disciplinary action against others.

We examined whether the RCMP has responded adequately to the findings of the internal audit and the criminal investigation. We examined certain amounts spent on pension and insurance administration. We also examined additional allegations that were brought to our attention during the course of our audit. Finally, we looked at whether the OPS investigation was independent of, and conducted without undue direction or bias by, the RCMP.

While this chapter refers to certain organizations outside the Government of Canada, it must be noted that our conclusions about management practices and actions refer only to those of public servants. We did not audit the records of the external organizations. Consequently, our conclusions cannot and do not pertain to any practices that they followed.

The RCMP pension plan is separate from the Public Service pension plan. It is governed by the *RCMP Superannuation Act* and provides pension benefits to all employees classified as regular or civilian members of the RCMP. The RCMP is responsible for both the management of the plan and the preparation of its financial statements. The Pension Fund, created in April 2000, along with the RCMP Superannuation Account, had a total balance of \$12.3 billion

at the time of our audit. It costs the RCMP from \$6 million to \$14 million a year for pension administration.

The RCMP also provides group life and disability insurance benefits to its regular and civilian members, based to a large extent on members' contributions. The various insurance plans have roughly \$30 million on deposit and cost a little over \$2 million a year for the RCMP to administer.

Why it's important

RCMP members serve and provide their contributions with the expectation of receiving pension benefits upon retirement in accordance with the *RCMP Superannuation Act*. In addition, insurance contributions represent an investment by members in their future financial security. RCMP plan administrators have an obligation to manage the plans with due diligence, in good faith and in accordance with public service ethics and values. Sound staffing and contracting controls and corporate oversight of senior officials' actions are essential to ensuring that these obligations are met.

What we found

- The RCMP responded adequately to its internal audit and the OPS investigation, but there are still matters that remain unresolved.
- The OPS told us that its investigation was not directed or influenced in any way by the RCMP. The Ottawa Police investigators had direct access to their own senior management and to Crown counsel throughout the investigation. However, the terms of reference for the investigation stated that the lead OPS investigator on the case reported directly to an assistant commissioner of the RCMP. This did not give the investigation an appearance of independence. We found that the RCMP does not have an established policy for ensuring that external investigations of its actions at its request are performed, and are seen to be performed, in an independent and unbiased manner.
- The RCMP reimbursed or credited about \$3.4 million to the pension plan for expenses charged to the plans improperly, and it has taken measures to prevent inappropriate charges in the future. It has also taken steps to strengthen controls over staffing, contracting, and review of business cases and information provided to the Treasury Board.
- An estimated \$1.3 million was charged to the pension and insurance plans to pay for commissions or products that provided little or no value, and for excessive payments to employees' friends and family members hired as temporary staff. The pension plan has been reimbursed or credited \$270,280 of those unnecessary or wasteful expenditures.

- Even though an RCMP disciplinary investigation found that proceeding with disciplinary action was warranted against four of its regular and civilian members, the RCMP decided not to take action as too much time had elapsed.

The RCMP has responded. The Royal Canadian Mounted Police has agreed with each of our recommendations and is in the process of taking corrective action.

Introduction

9.1 The Royal Canadian Mounted Police (RCMP) provides its members with a pension plan and life and disability insurance plans. The plans are administered by its National Compensation Policy Centre (NCPC) in its Human Resources Branch.

Pension activities

9.2 The RCMP pension plan is governed by the *Royal Canadian Mounted Police Superannuation Act* and provides pension benefits to all employees classified as regular or civilian members of the RCMP. It does not apply to public servants working at the RCMP, who are covered by the *Public Service Superannuation Act* and whose pensions are administered by the Treasury Board Secretariat and Public Works and Government Services Canada. The RCMP Pension Plan is a **contributory defined benefit plan** to which RCMP members and the government contribute, and of which the Government of Canada is the **sole sponsor**. This means that benefits are paid to retired members by the Government of Canada as provided by statute. The RCMP is responsible for administering the plan and preparing its financial statements.

Contributory defined benefit plan—A pension plan to which members and/or their employer contribute and benefits are determined by a formula.

Sole sponsor—The entity that assumes financial responsibility for the pension plan.

Omnibus legislation—A parliamentary bill that is made up of a number of related or separate parts. Each part may amend or repeal an existing act, or may enact a new act.

9.3 As of April 2000, **omnibus legislation (Bill C-78)** amended the RCMP pension scheme to add a pension fund separate from the previous Superannuation Account. Since the amendment, contributions to the new Pension Fund have been transferred to an investment board and invested in the financial markets. Managing the investments is separate from administering the pension plan. As of 31 March 2005, the Public Sector Pension Investment Board held net assets of \$1.4 billion for the new Pension Fund. RCMP pension activity for plan participants prior to April 2000 is recorded in the RCMP Superannuation Account, which had a balance of \$10.9 billion on 31 March 2005. The RCMP is responsible for the administration of the overall pension plan, which comprises the Pension Fund and the Superannuation Account. From 2001 to 2004, the yearly cost of administering the pension plan ranged from \$6 million to \$14 million. Administration includes maintaining a database of information for all contributors and retirees. The database is used to

- record the collection of premiums,
- contain information that enables the software to assess eligibility requirements for members,
- provide regular reports to contributors and retirees, and

- calculate and initiate pension payments.

9.4 The legislation that created the new Pension Fund also re-established a statutory Pension Advisory Committee with a strengthened mandate to advise and assist the Minister responsible for the RCMP (Minister of Public Safety). The Minister appoints a maximum of eight people to the Committee, which includes representatives of RCMP senior management, regular members, civilian members, a retiree, and a pension expert.

9.5 After the legislation was passed, the RCMP decided that its pension administration needed to be modernized. The RCMP determined that

- the many inaccuracies in the database of members' pension files needed to be corrected,
- the database itself needed to be improved and moved from paper to electronic media, and
- it needed to decide whether it should contract out the administration of the plan.

9.6 The NCPC began a series of projects to address these requirements and modernize its administration of the pension plan. The NCPC also entered into discussions with the Treasury Board Secretariat to determine what administrative costs should be borne by the pension plan and what costs should be paid for by the RCMP from its administrative budget.

Insurance activities

9.7 For at least 50 years, the RCMP has sponsored and administered its members' health and disability insurance benefits, which are based largely on members' contributions. Administering the health and disability plans includes

- enrolling participants in the plans,
- recording the collection of premiums,
- changing the participants' beneficiaries and coverage,
- providing claim forms, and
- ensuring that participants' premiums are sufficient to pay expected future claims.

9.8 The various insurance plans have a balance of about \$30 million and cost a little over \$2 million a year for the RCMP to administer. A private sector insurance underwriter invests the premiums, pays the claims, and is paid a flat rate per claim and a percentage of the overall premiums.

9.9 The RCMP Insurance Committee reviews the design and administration of the insurance plans to ensure that participating members of the RCMP receive the maximum level of benefits to which they are entitled. The Committee is chaired by the RCMP's Deputy Commissioner for Federal Services and the Central Region and is made up of six members, including RCMP managers, current and retired members, and regular and civilian members.

9.10 In parallel with modernizing the administration of the pension plan, the RCMP also began to consider outsourcing the administration of the insurance plans. As pension and insurance matters involved many of the same RCMP managers, these projects developed links between them (see paragraphs 9.32 and 9.50).

RCMP managers misused pension and insurance money

9.11 Working under the RCMP's Chief Human Resource Officer, the Director of the NCPC managed the projects to modernize the administration of the pension plan and outsource the administration of the insurance plans. On 28 May 2003, the Commissioner of the RCMP first became aware of potential irregularities in the administration of the pension plan. The RCMP initiated a criminal investigation on 23 June 2003. The Commissioner then cancelled it two days later to conduct an internal audit to more clearly identify issues and help determine if an external investigation was warranted. The internal audit was concluded in October 2003.

9.12 At the RCMP's request, the Ottawa Police Service (OPS) opened a criminal investigation on 31 March 2004. The OPS concluded this investigation in June 2005. Based on the findings of the 15-month long investigation, **Crown counsel** advised that there was "no reasonable prospect of conviction on criminal charges". However, the investigation did identify several significant problems involving abuse of the pension and insurance plans, nepotism, wasteful spending, and instances of management overriding controls.

9.13 RCMP internal staff reviews, internal audits, and the OPS investigation all concluded that certain individuals misused resources

Crown counsel—The lawyer representing the Crown (federal or provincial jurisdiction). In complex cases, the Crown counsel may review investigation results and advise on the prospect of conviction, given the evidence collected.

and circumvented management controls. The following are the most significant findings:

- The NCPC Director ignored normal staffing processes. Friends and relatives of the NCPC Director and of incumbent employees were hired to work on correcting data in the pension database. Most of the staff were hired as summer students, but without using the recommended Federal Student Work Experience Program and at higher than normal rates of pay.
- The NCPC Director established consulting contracts valued at over \$20 million, overriding controls to avoid competitions for the contracts. These contracts resulted in some work of questionable value being performed, and excessive fees for administrative services of little or no value being charged to the pension plan.
- Over \$3.1 million was inappropriately charged to the pension plan to pay for RCMP human resource projects that should have been paid for by RCMP appropriations funding. This had the effect of relieving budget pressure on managers responsible for these projects.
- The RCMP persuaded the insurance carrier to subcontract work to a second firm to administer insurance plans on behalf of the RCMP. As a result, there was no competition for a \$4.6 million contract.
- There were irregularities in the process for contracting out the administration of the pension plan. The contracting decision was not based on an adequate business case.

The former Director of NCPC told us that, to his knowledge, RCMP staffing and contracting policies and practices were followed.

Focus of the audit

9.14 We examined

- whether the agreement between the RCMP and the OPS was structured to avoid undue RCMP direction or bias,
- whether the RCMP has responded adequately to all significant deficiencies that the OPS found during its investigation, and

- whether the breakdowns in controls resulted in significant costs, poor value for money, or misuse of funds.

9.15 We also examined allegations that were brought to our attention during the audit. All matters for which sufficient evidence exists to support conclusions are included in this chapter.

9.16 We did not examine the performance of the Ottawa Police Service or other organizations outside the Government of Canada.

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

Observations and Recommendations

Actions taken by the RCMP

Most required corrective action has been taken

9.18 The Royal Canadian Mounted Police (RCMP) has acted to respond to internal audits and the Ottawa Police Service (OPS) investigation. The Chief Human Resources Officer resigned as a result of the RCMP internal audit. The RCMP suspended the National Compensation Policy Centre (NCPC) Director, who subsequently resigned. In addition, the RCMP has

- reviewed expenditures for the administration of the pension and insurance plans,
- reimbursed or credited the pension plan for expenditures that it determined were inappropriate,
- strengthened controls for contracting,
- changed the Pension Accounting Unit to report to Corporate Management and Comptrollership instead of Human Resources,
- established a Pension Finance Oversight Committee to advise the Chief Human Resources Officer and the Deputy Commissioner of Corporate Management and Comptrollership on the administration of the pension plan and administrative expenses charged to the pension plan,
- started a review of insurance administration, and
- announced that it will conduct an evaluation of pension outsourcing.

9.19 At the end of its investigation, the OPS reported several breakdowns of management controls. We examined the corrective actions taken by the RCMP to address the OPS report.

9.20 Inappropriate use of the pension plan. The RCMP made it a priority to identify expenses that had been incorrectly charged to the pension plan. To address improper charges made in fiscal years 2000–01 to 2003–04, the RCMP reimbursed or credited the pension plan by about \$1.9 million in 2003–04, and about \$1.5 million in 2004–05. The RCMP’s Finance Branch reviewed the NCPC’s identification of improper charges made to the pension plan related to the outsourcing of insurance administration work and found the methodology consistent and reasonable. However, the Finance Branch concluded that because the police investigation and internal audit had found significant internal control weaknesses at the NCPC, it was impossible to accurately determine how much to reimburse or credit the pension plan.

9.21 We agree with the Finance Branch’s conclusions that the RCMP used a reasonable method to identify, estimate, and reverse inappropriate charges to the pension plan.

9.22 Preventing inappropriate charges to the pension plan in the future. The following improvements made by the RCMP will help prevent inappropriate charges to the pension plan in the future:

- The RCMP established a Pension Finance Oversight Committee to advise the Chief Human Resources Officer and the Deputy Commissioner of Corporate Management and Comptrollership, on the administration of the pension plan and charges made to the pension plan. The Committee’s role is to provide a challenge function (review and question pension administration proposals and decisions) and not to actually administer the plan. The Committee is currently in active operation.
- The Pension Finance Oversight Committee established guiding principles for charging costs to the pension plan. According to these principles, the NCPC pension accounting unit now monitors and approves all invoices paid through the NCPC, to ensure that only pension-related items are charged to the pension plan.

9.23 Circumvention of staffing controls. In May 2002, an RCMP staffing officer expressed concerns about nepotism in hiring casual employees for the NCPC. Human Resources staff claimed that because of work pressures, they allowed the NCPC Director to hire casual employees on his own rather than following the regular staffing

process. The OPS interviewed 65 of these casual employees and found that 49 had friends or family who worked for the RCMP.

9.24 In 2003, the Chief Human Resource Officer informed Internal Audit that Human Resources would review all proposed new positions and would coordinate and approve all staffing actions. As part of our audit, we reviewed selected staffing and classification files. We found that the staffing files were complete and adequately supported staffing decisions but that one classification decision was based on questionable information.

9.25 In 2004, the RCMP took action to better control NCPC staffing by requiring that the Centre's staffing plan be incorporated into information provided to the Treasury Board Secretariat and reviewed by the Pension Finance Oversight Committee.

9.26 Government contracting policies were not followed. As part of the OPS investigation, the RCMP commissioned a forensic report of 135 contracts worth over \$20 million. The report concluded that the contracting processes used by the NCPC would not pass the test of public scrutiny. It found that, for a majority of these contracts, the NCPC Director did not apply a fair or competitive contracting process. He established contracts without competition and circumvented controls designed to ensure fairness, equity, and the lowest price.

9.27 The RCMP has taken measures to strengthen its contracting controls. The RCMP's Corporate Procurement Directorate now ensures that

- managers are reminded of RCMP contracting policies and that managers who do not comply with policies are sanctioned,
- there is a quality assurance program for contracting, and
- procurement personnel receive mandatory values and ethics training.

It is our opinion that these measures are an adequate response to control problems. However, the problems we found were not due to an absence of controls but were due to management overriding controls.

Areas for improvement

The RCMP lacks a policy for external investigations

9.28 We expected that an investigation of the Royal Canadian Mounted Police (RCMP) by an external police force would avoid undue RCMP direction or bias or the appearance of such. The RCMP and the Ottawa Police Service (OPS) formalized the structure of the investigation in a memorandum of understanding, but it was not signed

until 10 months after the investigation began. In our view, however, this is an improvement over previous investigations of the RCMP by external police forces that we reviewed and that did not have a memorandum of agreement.

9.29 Even though RCMP communications to the public referred to the investigation as an OPS investigation, there was significant RCMP involvement. The OPS relied on the RCMP to provide resources to conduct the investigation. As stated in the memorandum of understanding, the OPS lead investigator reported to an RCMP assistant commissioner, and the lead investigator's staff included several RCMP investigators. A member of the RCMP described it as an RCMP investigation conducted with OPS assistance. Another perspective was that the role of the RCMP was to facilitate access and provide information about the organization and the subject matter. OPS officials told us that their investigation was not directed or influenced by the RCMP, and they routinely sought input on the case from OPS senior officers and their own legal counsel. However, the fact that the lead OPS investigator reported to the Assistant Commissioner of the RCMP responsible for departmental security—a potential issue area for the investigation—compromised the appearance of the OPS operating without direction or bias.

9.30 We found that the RCMP does not have an established policy to ensure that external investigations requested by the RCMP of its activities are, and appear to be, independent and unbiased. As a result, it is difficult for the RCMP to respond to complaints that an investigation is not independent and unbiased.

9.31 Recommendation. The Royal Canadian Mounted Police should develop and institute a policy to ensure that when it requests an external investigation based on allegations against one or more of its members or employees, the investigation is not only independent and unbiased, but appears to be independent and unbiased.

RCMP's response. We agree. The RCMP will develop and institute a policy to ensure that the external investigations of RCMP members or employees that are requested by the RCMP are independent of RCMP influence.

The pension and insurance plans were used to pay for some work of little or no value

9.32 The OPS report identified several breakdowns in control that led to unnecessary or wasteful expenditures. We estimate that the RCMP charged \$1,337,820 to the pension and insurance plans for work of

little value, of which \$270,280 was reimbursed or credited to the pension plan (Exhibit 9.1).

9.33 Commissions paid to Consulting and Audit Canada (CAC).

The NCPC Director circumvented competitions by using Consulting and Audit Canada (CAC) to hire individuals and firms he had already chosen to do work at NCPC. For each of the contracts, CAC charged a fee for a number of services, including locating a qualified vendor. As was its normal practice, it applied a 15 percent administrative fee to cover its administration and overhead costs. Since the vendor had already been selected, the RCMP obtained little or no value from these fees, which we estimate to be \$666,700.

9.34 The RCMP paid for the same work twice. The Director of the National Compensation Policy Centre (NCPC) instructed the insurance carrier, Great-West Life, to begin preparing for outsourcing the administration of the RCMP employee insurance plans. This preparatory work was performed by Great-West Life without a contract—contrary to contracting regulations. After working on the project for several months, the RCMP requirements changed and Great-West Life determined that it could not provide all the required services within the specified delivery date. It was persuaded to act as a go-between for payments to another firm, Morneau Sobeco, which took on the job of administering the insurance plans for the RCMP. The RCMP then paid Morneau Sobeco for the firm's own requirements definition phase of the contract, indicating that the contractor started again from the very beginning. RCMP officials could not identify any tangible service performed by Great-West Life. Great-West Life believes that it helped to define requirements for

Exhibit 9.1 Unnecessary and wasteful expenditures were charged to the pension and insurance plans

Work paid for	Amount	Portion reimbursed or credited
Fees paid to Consulting and Audit Canada to search for and supervise vendors already employed by the RCMP	\$666,700	\$0
Payments to Great West Life for duplicate work	\$250,000	\$0
Portion of \$443,000 in sole-sourced contracts with consultant to do staffing paid from pension plan	\$201,120	\$50,280
Excess paid for casual staff who were hired and paid more than the standard rate	\$220,000	\$220,000
Total unnecessary and wasted expenditures	\$1,337,820	\$270,280

Sole-sourced contract—A contract for which the contracting authority does not seek competitive bids.

future outsourcing work. The OPS investigation concluded that the RCMP insurance plans paid over \$250,000 in unnecessary payments to Great-West Life.

9.35 Hiring a consultant circumvented staffing regulations.

The NCPC Director contracted with a consultant to do the Centre's staffing for about 18 months. The total cost of the contracts awarded to the consultant was over \$443,000 during this time. An amount of \$201,120 was charged to the pension plan, of which \$50,280 was subsequently reimbursed or credited. Since the RCMP maintains its own civilian personnel services, it is not clear what value was obtained by hiring an independent consultant. The RCMP contests this conclusion, and believes that this staffing assistance was necessary to meet the timing and service requirements for this important project, requirements that the RCMP staffing function could not meet. It is our opinion that the need was not well supported by the facts and that this particular action, without compensating controls, allowed the NCPC to circumvent staffing regulations.

9.36 Casual staff were hired inappropriately and paid double the standard rate of pay. The Director of the NCPC had at least 52 casual employees hired to correct and consolidate pension data. Human Resources staff suggested using the Federal Student Work Experience Program. However, the Director did not use the program and hired friends and relatives of employees at about double the going rate for students. Our review identified 32 individuals with little or no experience who were hired at about double the student rate. We estimate that excess payments made as a result of the difference in rates amount to about \$220,000.

9.37 The RCMP is assessing the value of outsourcing pension plan administration. The RCMP may not have obtained value-for-money when it outsourced the administration of its pension plan. The RCMP is evaluating this issue and plans to complete its report by 31 March 2007.

9.38 Recommendation. The Royal Canadian Mounted Police (RCMP) should review the amounts charged against the pension and insurance plans for work of little or no value and excessive charges to determine whether additional amounts should be reimbursed or credited to the RCMP pension and insurance plans.

RCMP's response. We agree. The RCMP has already begun an extensive review of all charges against the pension and insurance plans. We have also implemented ongoing monitoring to ensure that value-for-money is achieved and only appropriate charges are incurred.

RCMP internal reviews of pension outsourcing and information provided to the Treasury Board Secretariat were inadequate

9.39 RCMP business case for outsourcing the administration of the pension plan. A central element of the RCMP's strategy to modernize pension administration was to determine whether it could be done more economically by the private sector. The RCMP therefore carried out a study to determine if this was so. We reviewed the business case that was used to justify outsourcing the administration of the pension plan to Morneau Sobeco.

9.40 In 2000, the Treasury Board approved the RCMP's submission to outsource the administration of the pension plan. However, we found that the Treasury Board Secretariat was not presented with a balanced business case for outsourcing the administration of the pension plan. The business case was

- written in a way that supported full outsourcing and provided little analysis of any other options for the administration of the pension plan;
- based on estimates of costs provided by Morneau Sobeco, the eventual winner of the outsourcing contract; and
- disputed by Public Works and Government Services Canada; however, there is no evidence that this was ever acknowledged in the decision-making process.

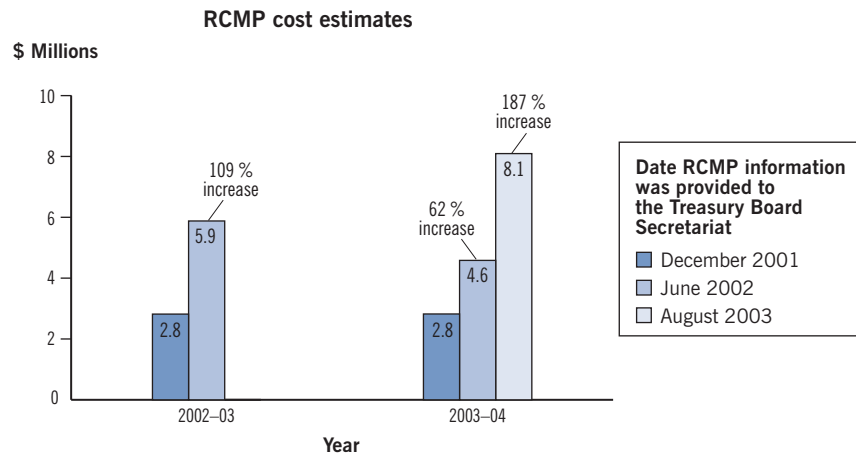
9.41 The RCMP provided Morneau Sobeco with the assumptions used in developing the cost estimates for the administration of the RCMP pension plan, which led to gross underestimation of those costs. These estimates were used as the basis of the contract awarded to Morneau Sobeco for outsourcing. The RCMP accepted these estimates without conducting additional reviews. In the original information provided to the Treasury Board Secretariat, the expected costs for outsourcing the pension plan administration, including those costs for Morneau Sobeco, were estimated to be \$2.8 million for each of 2002–03 and 2003–04. Subsequently, in 2002, the RCMP increased its estimate for 2002–03 to \$5.9 million. Again in 2003, the RCMP informed the Treasury Board Secretariat of a further increase in its estimate for 2003–04 to \$8.1 million, almost three times the original amount (Exhibit 9.2). The RCMP stated that these increases were due to changed assumptions and better estimates once the contract was signed.

9.42 The problems with the information provided to the Treasury Board Secretariat went beyond underestimating the costs of outsourcing the administration of the pension plan. Forecasts for its

ongoing administration and other pension projects were also underestimated as they omitted significant projects, such as cleaning up pension data and operating a pension data repository. For example, revised estimates for 2002–03 were more than four times the original \$2.4 million estimate (Exhibit 9.3).

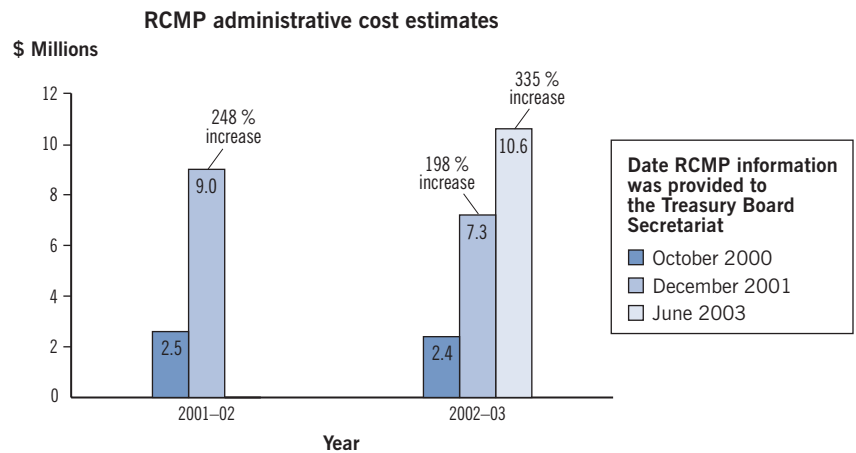
9.43 The RCMP Finance Branch provides advice and helps prepare information to be sent to the Treasury Board Secretariat before being provided to the Treasury Board for consideration. However, we found that the Finance Branch did not challenge the numbers presented by the NCPC in the information provided to the Treasury Board

Exhibit 9.2 The cost of pension outsourcing increased far beyond first estimates given to the Treasury Board Secretariat



Source: From data provided by the Royal Canadian Mounted Police

Exhibit 9.3 Internal pension administration costs continued to escalate



Source: From data provided by the Royal Canadian Mounted Police

Secretariat. In addition, the Branch told us that it relied entirely on the advice and decisions of the NCPC line managers for the decision to outsource the administration of the pension plan.

9.44 Recommendation. As part of its internal review process for each of its submissions to the Treasury Board Secretariat, the Royal Canadian Mounted Police should challenge all important program changes to ensure that business cases are complete and competent.

RCMP's response. We agree. The RCMP already has in place a strong process to challenge all important program changes reflected in Treasury Board submissions and Memoranda to Cabinet; all submissions are supported by comprehensive business cases, which are reviewed by the Pension Finance Oversight Committee; and additional resources are being sought through a business case to the Senior Executive Committee to further strengthen the Finance Branch's challenge role. These measures notwithstanding, the RCMP will continue to work to identify further opportunities to strengthen existing processes.

9.45 Recommendation. The Royal Canadian Mounted Police should open the insurance administration contract to competitive bids at the earliest possible date.

RCMP's response. We agree. The RCMP will open the insurance administration contract to competitive bids at the earliest possible date, but not until the issue of authority related to insurance is resolved.

9.46 External review by the Treasury Board Secretariat. We also examined the Treasury Board Secretariat's review of the information received from the RCMP to determine whether the Secretariat exercised due diligence concerning the outsourcing of the administration of the pension plan. We found that in its analysis of the information originally submitted, Secretariat program analysts had

- identified the importance of the outsourcing decision,
- ensured that the Pension Policy Group at the Treasury Board Secretariat had sufficient time and information to analyze the impact that this decision would have on the other federal pension plans, and
- compared the expected results of the outsourcing project against other plans and questioned the expected benefits.

9.47 The program analysts also challenged the increasing cost estimates in the revised information subsequently provided by the RCMP. However, they did not conduct a detailed review and each time

the analysts questioned the escalating costs, the NCPC staff gave responses that the analysts considered reasonable.

The RCMP's authority to administer its insurance plans is unclear

9.48 Although the RCMP has been administering its insurance plans for more than 50 years, it believes that it may lack the authority to collect premiums and manage insurance plans on behalf of its members. We understand that the RCMP is currently discussing this issue with the Treasury Board Secretariat.

9.49 Recommendation. The Royal Canadian Mounted Police, working with the Treasury Board Secretariat, should ensure that it has the appropriate authority in place to collect premiums and manage its insurance plans.

RCMP's response. We agree. The RCMP will continue to work expeditiously with the Treasury Board Secretariat, as it already has been doing for some time, to ensure that the RCMP has the appropriate authority in place to collect premiums and manage its insurance plans.

The RCMP's insurance plans may have paid too much for outsourcing

9.50 The OPS report noted that the chairs of the Pension Advisory and Insurance committees agreed to partially fund the insurance outsourcing project from the pension plan. The RCMP reimbursed or credited the pension plan, established a Pension Finance Oversight Committee, and created a set of principles to guide what should be charged to the pension plan. However, no such principles or oversight committee was put in place for the insurance plans. As a result, it is unclear whether a portion of the amount paid by the insurance plans for insurance outsourcing should have been paid by the RCMP. The RCMP claims that it lacks the authority to charge administrative costs of insurance plans to its appropriation; however, it was RCMP officials who authorized the original expenditure for the insurance outsourcing project.

9.51 Recommendation. The Royal Canadian Mounted Police should develop charging principles for its insurance plans, and review the amounts charged for outsourcing insurance plan administration according to these principles.

RCMP's response. We agree. The RCMP will be developing charging principles for its insurance plans. Other work is also currently underway to determine the appropriate governance structure, determine the relativity of the plans, and audit the 2004 Financial Statements of the Insurance Plans.

The RCMP did not take disciplinary action against members

9.52 After substantial completion of our audit work, the RCMP informed us that it was no longer considering disciplinary action against RCMP members about whom allegations of misconduct had been received. These were members of the RCMP, not public servants, who were named in the OPS investigation report. The *Royal Canadian Mounted Police Act* requires that a formal disciplinary hearing take place within one year of an appropriate officer knowing of a possible contravention of the RCMP Code of Conduct and of knowing the identity of the member. An internal RCMP policy sets the same deadline for the informal discipline process. The OPS report identified nine regular and civilian members, and following a disciplinary investigation, the RCMP found that disciplinary action was warranted against four of these members. However, the disciplinary investigation also found that too much time had elapsed.

9.53 While information for at least one possible contravention was known as early as 2003, the RCMP only assigned a deputy commissioner to review allegations of misconduct against four of its members in September 2005. It is not clear why this action was not initiated earlier, but we are told by the RCMP that it was following its previous practice of waiting until after the conclusion of the criminal investigation.

9.54 In a separate case, the Federal Court of Appeal ruled, in February 2006, that the one-year deadline referred to in the *Royal Canadian Mounted Police Act* for a formal disciplinary hearing should begin at a much earlier date than the one chosen by RCMP officials. The implications of this court decision were relayed soon after to RCMP officials responsible for discipline. In August 2006, the RCMP decided not to pursue disciplinary action against these members as too much time had elapsed.

Conclusion

9.55 During the Royal Canadian Mounted Police's (RCMP) modernization of its pension and insurance administration, various matters, including several allegations of improper conduct for outsourcing the administration of the pension plan, were brought to the attention of RCMP senior management. An internal audit found non-compliant staffing activities, improper contracting processes, and significant financial waste. A subsequent independent criminal

investigation by the Ottawa Police Service (OPS) resulted in insufficient evidence to provide a reasonable prospect of conviction.

9.56 We found that the agreement between the RCMP and the OPS was not structured in a manner to ensure that the investigation was performed, and was seen to be performed, in an independent and unbiased manner. However, the OPS assured us that its investigation was not directed or influenced in any way by the RCMP.

9.57 We found that the RCMP had reimbursed or credited the amount it estimated had been incorrectly charged to the pension plan. However, it could not determine the exact amount that should be reimbursed or credited to the plan.

9.58 An estimated \$1.3 million was spent from the pension and insurance plans to pay for commissions or products for which no value was received and for excessive payments to employees' friends and family members hired as temporary staff. The pension plan has been reimbursed or credited \$270,280 for those unnecessary or wasted expenditures.

9.59 The RCMP has responded adequately to control deficiencies identified in internal audits and the OPS investigation. However, it has yet to

- ensure that the external investigations of its operations are designed to be, and appear to be, independent and unbiased;
- review the amounts charged to the pension and insurance plans, for which little value was provided, and determine whether the plans should be reimbursed or credited;
- provide sufficient internal reviews of business cases that support significant initiatives;
- ensure that it has charging principles in place for its insurance plans, and determine whether amounts charged to the insurance plan accounts should have been paid by the RCMP;
- ensure that the insurance administration contract is competitively tendered; and
- clarify the authority of the RCMP to collect premiums and manage its insurance plans.

About the Audit

Objectives

The objectives of this audit were to determine

- whether the Royal Canadian Mounted Police (RCMP) has responded adequately to all significant deficiencies that the Ottawa Police Service (OPS) found during its investigation of the RCMP pension and insurance plans; and
- whether breakdowns in controls resulted in excess costs, poor value-for-money, or misuse of funds.

During our audit, we added the following objective: to determine whether the agreement between the RCMP and the OPS was structured to avoid undue RCMP direction or bias.

Scope and approach

We reviewed RCMP practices by conducting interviews and examining documents. We also looked at the Treasury Board Secretariat's role in reviewing information provided by the RCMP for Treasury Board consideration. We also examined allegations that were brought to our attention during the audit. All matters for which sufficient evidence exists to support conclusions are included in this chapter.

We did not examine the performance of the OPS. When we comment on deficiencies identified in the OPS report, we have independently verified the findings.

While this chapter refers to certain organizations outside of the Government of Canada, it must be noted that our conclusions about management practices and actions refer only to those of public servants. We did not audit the records of the external organizations. Consequently, our conclusions cannot and do not pertain to any practices that they followed.

Criteria

We expected that RCMP practices and decisions would

- comply with the *Financial Administration Act*, the *Public Service Employment Act*, the *Royal Canadian Mounted Police Superannuation Act* and regulations pursuant to the foregoing, including Government Contracting Regulations;
- adhere to Public Service and RCMP statements of ethics;
- implement an action or a plan for action commensurate with the scope and gravity of the deficiency noted in the internal audits and that the OPS report would have been approved by management;
- be designed to give managers good value-for-money from all public expenditures; and
- ensure that the OPS investigation was structured to avoid undue RCMP direction or the perception of bias.

Audit work completed

Audit work for this chapter was substantially completed 9 May 2006, and was updated to reflect further information received up to 12 October 2006.

Audit team

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Appendix List of recommendations

The following is a list of recommendations found in Chapter 9. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Agency's response
Areas for improvement	
<p>9.31 The RCMP should develop and institute a policy to ensure that when the RCMP requests an external investigation based on allegations against one or more of its members or employees, the investigation is not only independent and unbiased, but appears to be independent and unbiased. (9.28–9.30)</p>	<p>RCMP's response. We agree. The RCMP will develop and institute a policy to ensure that the external investigations of RCMP members or employees that are requested by the RCMP are independent of RCMP influence.</p>
<p>9.38 The RCMP should review the amounts charged against the pension and insurance plans for work of little or no value and excessive charges to determine whether additional amounts should be reimbursed or credited to the RCMP pension and insurance plans. (9.32–9.37)</p>	<p>RCMP's response. We agree. The RCMP has already begun an extensive review of all charges against the pension and insurance plans. We have also implemented ongoing monitoring to ensure that value-for-money is achieved and only appropriate charges are incurred.</p>
<p>9.44 As part of its internal review process for each of its submissions to the Treasury Board Secretariat, the RCMP should challenge all important program changes to ensure that business cases are complete and competent. (9.39–9.43)</p>	<p>RCMP's response. We agree. The RCMP already has in place a strong process to challenge all important program changes reflected in Treasury Board submissions and Memoranda to Cabinet; all submissions are supported by comprehensive business cases, which are reviewed by the Pension Finance Oversight Committee; and additional resources are being sought through a business case to the Senior Executive Committee to further strengthen the Finance Branch's challenge role. These measures notwithstanding, the RCMP will continue to work to identify further opportunities to strengthen existing processes.</p>
<p>9.45 The RCMP should open the insurance administration contract to competitive bids at the earliest possible date. (9.39–9.43)</p>	<p>RCMP's response. We agree. The RCMP will open the insurance administration contract to competitive bids at the earliest possible date, but not until the issue of authority related to insurance is resolved.</p>

Recommendation	Agency's response
<p>9.49 The RCMP, working with the Treasury Board Secretariat, should ensure that it has the appropriate authority in place to collect premiums and manage its insurance plans. (9.46–9.48)</p>	<p>RCMP's response. We agree. The RCMP will continue to work expeditiously with the Treasury Board Secretariat, as it already has been doing for some time, to ensure that the RCMP has the appropriate authority in place to collect premiums and manage its insurance plans.</p>
<p>9.51 The RCMP should develop charging principles for its insurance plans, and review the amounts charged for outsourcing insurance plan administration according to these principles. (9.50)</p>	<p>RCMP's response. We agree. The RCMP will be developing charging principles for its insurance plans. Other work is also currently underway to determine the appropriate governance structure, determine the relativity of the plans, and audit the 2004 Financial Statements of the Insurance Plans.</p>

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