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Main points

The Department of Justice (Justice) needs to improve its processes to track, enforce, and collect fines. Justice does not know if it has enforced all fines and charges.

Justice needs to control employees' pay. It needs to charge municipalities for the cost of policing services in accordance with *The Police Act, 1990*, and test its business continuity plan.

We also report that at March 31, 2007, the Saskatchewan Financial Services Commission (Commission) did not have adequate processes to investigate complaints by the investing public. The Commission needs to establish a formal system to properly allocate investigative resources, monitor investigations, and establish standards for planning, conducting, and reviewing investigations of complaints from the investing public. It should also set performance targets to help measure progress towards objectives. It should require and review sufficient information about investigations of complaints from the investing public to carry out its responsibilities.

We assessed the Superintendent of Pension's progress towards addressing our past recommendations for regulating pension plans we made in 2005.

The Superintendent has fully addressed two of our recommendations and made progress towards the other two. It has broadened its document requirements and guidance for registration and amendment of pension plans and developed alternative ways to obtain information from pension plan administrators. The Superintendent needs to do more work to expand its analysis of pension plan risks, and prepare a risk-based work plan to supervise pension plans.

Introduction

The mandate of the Department of Justice (Justice) is to uphold the rule of law, protect basic legal rights of citizens, and ensure good and proper administration of justice.¹ Justice provides legal services for the Government, as well as justice and police services for the people of Saskatchewan. Justice also administers registry systems for corporations and local registrars, and regulates pensions, credit unions, and businesses.

The Government's summary financial statements show expenses of \$400 million for the year ended March 31, 2007 for the protection of persons and property. The following table shows the total government expenses for protection of persons and property.

	<u>2007</u>	<u>2006</u>
	(in millions of dollars)	
Department of Justice	\$ 238	\$ 217
Department of Corrections and Public Safety	163	140
Less expenses by Justice and Corrections for purposes other than the protection of persons and property	(61)	(59)
Information Services Corporation of Saskatchewan	37	36
Department of Labour	15	15
Other government agencies	<u>8</u>	<u>7</u>
	<u>\$ 400</u>	<u>\$ 356</u>

For the year ended March 31, 2007, Justice spent \$238 million on its programs and earned revenues of \$61 million. Information about Justice's revenues and expenditures appears in Justice's 2006-2007 annual report (see <http://www.justice.gov.sk.ca/annual-reports>).

¹ *Saskatchewan Justice, 2006-2007 Annual Report*, pg. 4.

The following is a list of Justice’s major programs and spending:

	<u>Original</u> <u>Estimates ²</u>	<u>Actual</u>
	(in millions of dollars)	
Community justice	\$ 120	\$ 121
Courts and civil justice	41	43
Marketplace regulation	5	5
Central management and services	22	23
Legal and policy services	21	21
Boards and commissions	<u>23</u>	<u>25</u>
	<u>\$ 232</u>	<u>\$ 238</u>

Justice is also responsible for the operations of several trust and special purpose funds and Crown agencies with years ending March 31, 2007.

These include:

- Law Reform Commission of Saskatchewan
- Office of Residential Tenancies – Director’s Trust Account
- Provincial Mediation Board Trust Account
- Public Guardian and Trustee of Saskatchewan
- Queen’s Printer Revolving Fund
- Saskatchewan Legal Aid Commission
- Staff Pension Plan for Employees of the Saskatchewan Legal Aid Commission
- Trust Accounts at Court Houses, Local Registrars, and Sheriff’s Offices
- Victims’ Fund

² Saskatchewan Finance, *Saskatchewan 2006-07 Budget Estimates*. The Estimates’ total does not include the additional \$4 million authorized through the *2006-07 Saskatchewan Provincial Budget – Supplementary Estimates – November* and the additional \$2 million authorized through the *2006-07 Saskatchewan Provincial Budget – Supplementary Estimates* for Justice (Vote 3).

Our audit conclusions and findings

In our opinion, for the year ended March 31, 2007:

- ◆ **Justice and its agencies had adequate rules and procedures to safeguard public resources except as described in this chapter**
- ◆ **Justice and its agencies complied with the authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing except as described in this chapter**
- ◆ **the financial statements for the agencies and funds are reliable**

This chapter also includes the results of our audit of the Saskatchewan Financial Services Commission's processes to investigate complaints by the investing public. We also include the results of a follow-up of the Superintendent of Pensions' progress to address our past recommendations.

System to enforce and collect fines needs improvement

Justice is responsible to track, enforce, and collect fines for offences under various provincial and federal laws. The purpose of a deterrent, such as a fine or jail, is to discourage the public from violating the law. If deterrents are not enforced, they will not be effective. Without effective deterrents, our communities will be less safe.

Justice's processes for administering fines include:

- ◆ controlling the distribution and receipt of tickets to and from law enforcement agencies
- ◆ ensuring the accurate and complete recording, tracking, and enforcement of tickets
- ◆ controlling the recording and receipt of fine payments
- ◆ collecting unpaid fines

Justice told us that law enforcement agencies issue between 130,000 and 150,000 tickets each year.

In this section, we describe weaknesses in Justice's processes to record issued tickets and collect unpaid fines.

Recording, tracking, and enforcement of tickets

Justice needs to improve its processes for the receipt of tickets and informations. Informations are charges or complaints made under *The Criminal Code of Canada*. Improvements in processes are necessary so that Justice properly enforces fines and criminal charges. Several provincial government agencies, as well as other levels of government (i.e., federal and municipal), rely on Justice to enforce fines and charges issued under various provincial and federal laws.

For purposes of this chapter, we refer to tickets and informations as tickets. Tickets may result in either fines or criminal charges. We expected Justice to have processes to know the tickets issued by law enforcement agencies and the unissued tickets.

We also expected Justice to have cost-effective processes to track tickets directly or require law enforcement agencies to provide it with periodic reports on their tracking of tickets.

Effective April 1, 2006, Justice implemented a policy requiring law enforcement agencies to return all issued, spoiled, or voided tickets. However, Justice has not implemented a process to determine if law enforcement agencies return all tickets. As a result, Justice does not know if it has enforced all fines and criminal charges. This lack of rules and procedures could result in Justice not achieving its goals of safer communities and upholding the rule of law.

On February 18, 2002, the Standing Committee on Public Accounts (PAC) considered this matter and agreed with our recommendation.

We continue to recommend that Justice strengthen its procedures to ensure that Justice records the tickets issued by law enforcement agencies.

Collection of unpaid fines

For several years, we made recommendations that Justice improve its procedures for collecting court-ordered fines. Justice has implemented all but one of these recommendations.

In January 1999, PAC recommended that procedures be developed to ensure that when repeat offenders appear in court, the sentencing judge will be informed if previous fines are unpaid.

Justice has implemented changes to its fines administration system (JAIN) to prepare outstanding fine reports and make them available to prosecutors when an offender with outstanding fines appears in court on *Criminal Code* matters. However, Justice has not implemented processes to provide prosecutors with reports of outstanding fines when an offender with outstanding fines appears in court related to matters under provincial laws.

We continue to recommend that Justice ensure that when repeat offenders appear in court, Justice informs the sentencing judge of any unpaid fines.

Better control over employees' pay needed

The Justice needs to better control employees' pay.

During the year, Justice reviewed its payroll costs during its review of monthly financial reports. However, Justice did not adequately review the accuracy of key payroll data for each pay period prior to paying employees. As a result, employees' pay has not been approved in accordance with *The Financial Administration Act, 1993*.

This weakness increases the risk that employees may be paid incorrect amounts.

- We recommend that the Department of Justice adequately review the payroll for accuracy prior to paying its employees to ensure that all employees' pay is approved in accordance with *The Financial Administration Act, 1993*.**

Compliance with *The Police Act, 1990* needed

Justice needs to comply with legislative authorities when charging municipalities for the cost of policing services.

The Police Act, 1990 (Act) allows Justice to provide policing services to municipalities that meet the criteria under the Act. The Act states that Justice will charge participating municipalities for the cost of these policing services in accordance with *The Police Regulations* (Regulations). Section 7 of the Regulations sets out the rate per capita that Justice must charge municipalities for the annual cost of policing services.

In 2006-07, Justice did not use the rates set out in the Regulations to charge municipalities for the cost of policing services. Therefore, some municipalities overpaid a total of \$0.7 million, while others underpaid a total of \$1.2 million.

2. We recommend that the Department of Justice charge municipalities for the cost of policing services in accordance with *The Police Regulations*.

The Department of Justice told us the per capita rates charged to municipalities for the cost of police services were approved in the 2006-07 Budget. It told us that in February 2006, the Department of Justice had informed municipalities of the approved per capita rates and all municipalities paid for policing services based on the approved rates. The Department of Justice told us it will be recommending amendments to the Regulations at the earliest opportunity to ensure the Regulations reflect the amount paid by municipalities.

Business continuity plan needs to be tested

Justice needs to test its business continuity plan (BCP)³ to help ensure that it can continue to deliver its critical services in the event of a disaster.

Justice identified its critical services and developed plans for them. Justice has approved its BCP, but has not yet tested it.

Justice told us that it plans to test its BCP during 2008. Starting April 2007, Justice began to use the Information Technology Office (ITO) for its information technology (IT) service delivery. To test its business continuity plan, Justice will need to consider any impacts from ITO providing IT services.

On February 6, 2006, PAC considered this matter and agreed with our recommendation.

We continue to recommend that the Department of Justice complete and implement its business continuity plan.

Saskatchewan Financial Services Commission

The Securities Act, 1988 (Act) provides protection to investors, fosters fair, efficient capital markets, and strengthens investor confidence in capital markets. The Saskatchewan Financial Services Commission (Commission) is responsible to administer the Act. The Commission is made up of six members appointed by Cabinet. When we refer to the Commission, we mean these members as well as the organization that they oversee. Members of the Commission are responsible to establish processes to meet the objectives of the Act.

The Commission is responsible for administering Saskatchewan securities law and regulating trading in securities (i.e., stocks, bonds, and

³ **Business Continuity Plan** (BCP)-Plan by an organization to respond to unforeseen incidents, accidents, and disasters that could affect the normal operations of the organization's critical operations or functions.

Disaster Recovery Plan (DRP)-Plan by an organization to respond to unforeseen incidents, accidents and disasters that could affect the normal operation of a computerized system (also known as **Contingency Plan**) A DRP or contingency plan is only one component of the Business Continuity Plan.

units in mutual funds). The Commission registers companies and individuals who trade in securities, reviews disclosure documents that must be provided to investors, and grants exemptions from securities laws. It also enforces Saskatchewan securities laws by setting investigation and enforcement policies, investigating complaints, hearing matters, and taking enforcement action related to violations of securities law.

The Commission relies on complaints from the investing public as a key mechanism to detect breaches of securities law because investors are close to the financial matters in question. The Commission uses its Securities Division to investigate these complaints.

The Act sets out the enforcement actions available to the Commission. As of July 1, 2007, the maximum penalty under the Act is a fine of \$5 million and/or imprisonment for a term of five years (previously, \$1 million and two years). To seek these penalties, the Commission must prosecute the alleged securities violation in Provincial Court. The Commission also has many other remedies under the Act, such as holding a formal hearing to impose an administrative penalty to a maximum of \$100,000 plus the costs of the hearing, issuing a cease trade order, or imposing a ban from the industry. During the past five years, the Commission opened over 600 files in response to complaints from the investing public.⁴ Over that same period, the Commission issued 29 temporary cease trade orders and held five hearings.⁴ The Commission advises that there have been three prosecutions under the Act in Provincial Court since 1988.

According to the Commission's records for the past five years, enforcement cases in Saskatchewan involved over \$5 million in investor losses due to investment fraud. The Commission told us it thinks this is a small portion of actual losses.

The Commission reports possible violations of the *Criminal Code of Canada* to the police so that they can take appropriate action under criminal law.

The Commission has agreements (i.e., recognition orders pursuant to the Act) to work with self-regulatory organizations (e.g., the Investment

⁴ Saskatchewan Financial Services Commission 2006-07 Annual Report.

Dealers Association of Canada (IDA) and the Mutual Fund Dealers Association of Canada (MFDA)). These organizations have powers to sanction their own members under their membership rules. However, these sanctions are less severe than those available to the Commission under the Act. These organizations must report to the Commission all complaints they receive from the investing public. The Commission can refer complaints to these organizations regarding their members for investigation and enforcement. However, the Commission cannot delegate its responsibility to enforce the Act, so it must monitor whether the organizations adequately address complaints referred to them and determine if the Commission requires any further enforcement action.

If the Commission does not have adequate processes to investigate and address complaints received, investors may experience further financial losses, investor confidence in the capital markets may lessen, and inefficiencies could develop in the capital markets. There is also a risk that the Government could face litigation if citizens conclude that the Commission had not adequately performed its regulatory duties.

Our audit objective and conclusion

The objective of our audit was to assess whether the Saskatchewan Financial Services Commission had adequate processes at March 31, 2007 to investigate complaints by the investing public. We did not examine investigations to determine if we agreed with the conclusions reached. Throughout our audit, we followed the *Standards for Assurance Engagements* established by The Canadian Institute of Chartered Accountants.

We used criteria to assess the Saskatchewan Financial Services Commission's processes. We based our criteria on international literature and the work of other auditors listed in the selected references. The Saskatchewan Financial Services Commission agreed with the criteria.

The criteria, set out in the exhibit below, describe the key processes that we expected the Saskatchewan Financial Services Commission to use to investigate complaints by the investing public.

Exhibit —Audit criteria for processes to investigate complaints

To have adequate processes to investigate complaints by the investing public, the Saskatchewan Financial Services Commission should:

1. Determine which complaints to investigate
 - 1.1. ensure staff are qualified
 - 1.2. track complaints
 - 1.3. screen complaints (i.e., prioritize)
2. Conduct the investigation
 - 2.1. plan the investigation
 - 2.2. document results of the investigation (e.g., decisions reached)
 - 2.3. take corrective action
 - 2.4. maintain independence of investigations
3. Monitor the effectiveness of securities complaints process
 - 3.1. set objectives
 - 3.2. set targets
 - 3.3. report results regularly

Based on our examination at the Saskatchewan Financial Services Commission against the above criteria, we reached the following conclusion.

At March 31, 2007, the Saskatchewan Financial Services Commission did not have adequate processes that met all of the criteria set out above to investigate complaints by the investing public.

Key findings (by criterion) and recommendations

We describe below what we expected (in italics) and our key findings for our three criteria, together with our recommendations.

Determine which complaints to investigate

We expected the Commission to ensure employees have the necessary qualifications to investigate complaints. We expected the Commission to track complaints received from the investing public to ensure it addresses all complaints adequately. We expected complaints would be screened (i.e., prioritized) to ensure timely attention to the most serious complaints.

The Commission must have the ability to determine which complaints to investigate and to conduct adequate investigations. The Commission uses job descriptions to set out key competencies that employees

require. The Commission hires investigators with varying backgrounds (e.g., former police investigators, financial professionals) to get a range of knowledge and skills. Investigators receive orientation at the start of their employment. The Commission has a training policy and provides training opportunities to develop and maintain employees' competencies.

The Commission uses a computer system to record all the complaints it receives. The Commission receives complaints directly from the public and through other agencies, such as securities regulators in other jurisdictions, self-regulatory organizations, and the police.

The Commission sets some guidance (i.e., factors to consider) for investigators to use when assessing which complaints to investigate directly, which complaints to refer to a self-regulatory organization, and which complaints it will not investigate. It also provides some guidance for re-evaluating which cases it should focus on over time.

The Commission, however, had no formal system for prioritizing complaints to investigate. Prioritizing complaints helps to ensure the Commission applies its investigative and enforcement resources on a timely basis to where they are most needed. For example, although the Commission may inform the police of possible violations of the *Criminal Code*, it remains responsible under the Act to know that sufficient enforcement action occurs to protect investors. The Commission must consider cases referred to the police in its on-going process to prioritize all complaints received.

- 3. We recommend the members of the Saskatchewan Financial Services Commission establish a formal system to focus investigative resources on timely attention to the most significant complaints.**

Conduct the investigation

We expected the Commission to have processes to plan investigations and document the results of investigations. These processes should ensure that investigations are independent. We expected the Commission to provide guidance to employees for recommending appropriate corrective action. We anticipated that the rationale for corrective actions would be documented and the actions approved. We also expected

employees would follow up as necessary regarding corrective actions, including monitoring that self-regulatory organizations took appropriate corrective action for referred files.

The Commission does not have formal standards for conducting investigations. Formal standards help to ensure sufficient and appropriate evidence exists to support decisions and the timely completion of investigations. The Commission's investigators do not formally plan each investigation. The Commission sets some guidelines for conducting investigations, but has no documented procedures to assist investigators with the investigation. Enforcement staff discuss steps for each case on an informal basis.

The Commission does not set timeframes for doing investigations. Cases sometimes remain open for long periods without any investigative activity. When investigations of significant cases are not timely, further investor losses or difficulty obtaining evidence may result. This contrasts with the Commission's expectations for self-regulatory organizations to set timeframes for their investigations of complaints.

The Commission has an adequate conflict of interest policy to help ensure that members of the Commission and employees remain independent. Members and employees complete a conflict of interest sign-off at the start of their appointment or employment. They also confirm their independence annually. In addition, members and employees must disclose any conflicts that arise in any matter assigned to them.

The Commission does not have a policy for management not directly involved in the investigation to review and approve case files. Without independent review and approval of case files, the Commission risks reaching inappropriate conclusions or decisions. Management told us that it reviews all investigators' case files before closing the files. However, we found several cases with no evidence of review.

The Commission must monitor cases it refers to self-regulatory organizations (e.g., the IDA and the MFDA) because the Commission cannot delegate its responsibilities to enforce the Act. The Commission told us for each referred case, its investigators review investigation reports prepared by these organizations. The Commission, however, has

not set policies or procedures for conducting these reviews. We found several cases where the Commission did not document if it agreed or disagreed with conclusions made by these organizations, or if it required further action.

In addition, these investigation reports do not provide a sufficient basis for the Commission to determine that the investigations conducted by these self-regulatory organizations are adequate. To use these reports, the Commission must know that the self-regulatory organizations' investigation processes are adequate. The Commission conducts on-site reviews of processes used by the IDA and MFDA every three years. The Commission, however, did not review the IDA's investigation (i.e., enforcement) processes during its most recent on-site three-year review.

- 4. We recommend the members of the Saskatchewan Financial Services Commission establish standards for planning, conducting, and reviewing investigations into complaints from the investing public.**
- 5. We recommend the members of the Saskatchewan Financial Services Commission monitor all investigations of complaints from the investing public including those referred to self-regulatory organizations.**

Monitor the effectiveness of securities complaints process

We expected the Commission to set objectives for monitoring the effectiveness of its securities complaints process. We expected the Commission would set targets to help measure progress towards achieving its objectives. We anticipated the Commission would receive reports that analyze results and provide explanations for significant variances from plans.

The members of the Saskatchewan Financial Services Commission approved a three-year strategic plan. Management provides the members of the Commission with various reports. The members of the Commission receive semi-annual activity reports that show trends, file volume, the types of files, statistics about files closed, and general reasons for file

closures. They also receive reports to explain results for key actions in the strategic plan and to provide information for decisions. However, these reports are not adequate for the Commission to monitor its securities complaints processes.

The Commission is responsible for enforcing securities law. The Commission does not receive sufficient information about investigation of complaints to know whether it is doing this adequately. For example, the Commission needs to receive information focusing on the progress achieved in investigations of complaints.

The members of the Commission have not set performance targets. Performance targets help define successful achievement of an objective and help measure progress towards achieving the objective. Management told us that it is researching this area and working with its Canadian Securities Administrators partners.

To raise public awareness of the Commission and its role, the Commission uses media releases regarding enforcement actions, occasional communication projects with its partners, its website, and its annual report. The Commission must ensure the public has adequate knowledge of the Commission's role in providing protection to investors to help encourage the public to report complaints.

- 6. We recommend the members of the Saskatchewan Financial Services Commission require and review sufficient information about investigations of complaints from the investing public to carryout their responsibilities.**
- 7. We recommend the members of the Saskatchewan Financial Services Commission set performance targets to help measure progress towards objectives.**

Selected references—Saskatchewan Financial Services Commission

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Superintendent of Pensions processes to supervise pension plans—a follow-up

About 49% of paid workers in Saskatchewan participate in registered pension plans.⁵ When a pension promise is made, this is the first step in the creation of a complex arrangement known as a pension plan. The appropriate management and oversight of this complex arrangement is critical to the fulfillment of the pension promise.

⁵ Financial Services Commission (2005): *A statistical perspective on pension plans registered in Saskatchewan*.

Background

To help ensure that pension plans are well managed, the Government needs an adequate regulatory and supervisory framework. *The Pension Benefits Act, 1992 (Act)* provides this framework. The Act sets out requirement for registration, amendment, and termination of pension plans. The Minister of Justice appoints a Superintendent of Pension (Superintendent) to administer and enforce the Act. The Superintendent is responsible to reduce the risk of financial loss or inequities to pension plan members. The Superintendent carries out this responsibility by supervising pension plans.

Our past work and recommendations

In 2004, we audited the adequacy of the processes the Superintendent of Pensions used to supervise pension plans. We reported the results of our audit in our 2005 Report – Volume 1 and made four recommendations to help improve supervision of pension plans.

We recommended that the Superintendent:

- ◆ Expand its analysis of pension plan risks to include the key risks faced by all pension plans
- ◆ Prepare a risk-based work plan to supervise pension plans
- ◆ Provide staff with written guidance regarding information to document for the registration and amendment of pension plans
- ◆ Develop alternative ways to obtain information from pension plan administrators or seek legislative changes to expand its enforcement powers to obtain the required information

In June 2005, the Standing Committee on Public Accounts agreed with these recommendations.

Our follow-up

In September 2007, we did a follow-up to assess how well the Superintendent has addressed our recommendations. We describe below what the Superintendent has done for each of the four recommendations.

Recommendation 1: We recommend that the Superintendent of Pensions expand its analysis of pension plan risks to include the key risks faced by all pension plans.

We made this recommendation because the Superintendent primarily focused on only one pension plan risk, funding risk. Funding risk is whether a pension plan has sufficient assets to meet pension obligations. Funding risk is only relevant to defined benefit plans.⁶

The Superintendent of Pensions has expanded its risk analysis to include governance and administrative risks for both defined benefit plans and defined contribution plans.⁷ However, the Superintendent has not yet documented all of the key risks that pension plans face. Nor has it documented and communicated guidance to staff on how to assess pension plans' management of key risks. For example, the Superintendent of Pensions has not documented guidance on how to assess pension plans' investment risk.

We continue to recommend the Superintendent of Pensions expand its analysis of pension plan risks to include the key risks faced by all pension plans.

Recommendation 2: We recommend the Superintendent of Pensions prepare a risk-based work plan to supervise pension plans.

We made this recommendation because the Superintendent did not have a comprehensive risk based work plan.

The Superintendent has developed an operational work plan. The plan includes assessing the adequacy of pension plans' funding, obtaining information about how pension plans govern, assessing propriety of pension plan amendments, and receiving annual information returns for pension plans. However, the Superintendent needs to identify key risks faced by all pension plans. Based on that assessment, the

⁶ A pension plan that specifies the pension that members of the plan receive on retirement based on a formula that can use such factors as the members pay and years of employment.

⁷ A pension plan in which the members' contributions are fixed. A member's pension is based on the member's and the employer's contributions and the accumulated investment earnings.

Superintendent will have to determine the impact of that assessment on its work plan.

We continue to recommend the Superintendent of Pensions prepare a risk-based work plan to supervise pension plans.

Recommendation 3: We recommend the Superintendent of Pensions provide staff with written guidance regarding information to document for the registration and amendment of pension plans.

We made this recommendation because the Superintendent had not clearly set out in writing the steps staff must follow to register and amend pension plans.

The Superintendent has developed policies and procedures including a checklist for completion by staff when registering and amending pension plans. These policies, procedures, and checklists help employees document pension plans' compliance with pension law.

Recommendation 4: We recommend the Superintendent of Pensions develop alternative ways to obtain information from pension plan administrators or seek legislative changes to expand its enforcement powers to obtain the required information.

We made this recommendation because the plan administrators did not always comply, in a timely manner, with the Superintendent's requirement to provide necessary information.

The Superintendent has addressed our recommendation by developing some alternative ways to obtain information from pension plan administrators, such as sending questionnaires to administrators, meeting with administrators, and carrying out on-site audits. The Superintendent continues to consider other means of obtaining timely information from pension plan administrators.

The Superintendent told us it has identified the need to review its enforcement powers, and has begun identifying possible changes to the pension laws.