

VOTE 7 - SUPERANNUATION AND RETIRED ALLOWANCES

13. Civil Service Pensions

Background

The superannuation benefits paid to civil servants⁵ are provided for in the Superannuation Act 1834 to 1963 and the Superannuation and Pensions Act, 1976. The Paymaster General's Office (PMG) is responsible for the payment of superannuation benefits to retired civil servants or to their spouses and children. The benefits paid are accounted for in the Superannuation and Retired Allowances Vote.

In 1999 the PMG expended £97.6m on the superannuation benefits of civil servants and their spouses. At the end of 1999, 9,518 former civil servants and 4,665 spouses of deceased former civil servants were in receipt of pensions.

Departments are classified as either having delegated or non- delegated authority for the purposes of processing superannuation payments to civil servants. Delegated departments are authorised to calculate the pension entitlements of its retired employees and to pay the retirement lump sums. They forward the details to the PMG, which takes the information into its records and pays the pensions. The PMG also reimburses the Departments in respect of the amounts of lump sums paid.

Non-delegated departments are responsible for furnishing the necessary evidence as to length of service, salary and other career details to the Pensions Section of the Department of Finance. That Department calculates the superannuation entitlements and forwards the details to the PMG, which enters the information in its records and pays the pensions and lump sums.

Audit Objectives and Scope

The audit evaluated the controls and procedures in operation to ensure that superannuation benefits were correctly calculated, were paid only to valid pensioners and were correctly recorded in the financial and accounting records. In particular

- The documentation relating to 131 pensioners was examined in order to verify the correctness and validity of benefits paid. 93 of the pensioners were from four delegated departments and 38 were from non-delegated departments
- Test checks were carried out on selected transactions and an analysis of payments made was carried out through the use of computer software
- Discussions also took place with managers and staff in the Banking Section of the PMG, the Pensions Section and Internal Audit Unit of the Department of Finance and with staff in delegated departments who had responsibility for superannuation matters.

Audit Findings

Accounting Records

The maintenance of the accounting records was generally satisfactory. Some errors were noted in relation to the coding of payments to the relevant Appropriation Account subheads in respect of

⁵ *excludes Teachers, Gardaí and Defence Forces personnel*

manually issued Payable Orders. However, the rate of error was such as not to be likely to have a material impact on the accuracy of the Appropriation Account.

Computation of Pension Entitlements

The examination of documents relating to service and career records and the computation of pension entitlements was satisfactory. No errors were discovered in the 131 cases examined. The files were well maintained.

Controls over inputs of Master Data

The pension payments system in the PMG is computerised. The payment of a pension to an individual is initiated by entering pensioner details (master data), such as name, address, date of birth, employment or pension category, pension payable, date of commencement of pension and other relevant data into the computer system. It is important that the input of master data on pensioners into the computer system is strictly controlled to ensure that only valid pensioners are set up and that the information is correct, as otherwise there is the risk that fraudulent payments could occur or incorrect amounts might be paid.

Controls over the input of master data were weak, mainly due to the fact that there were no restrictions on access to the computer for the staff carrying out different functions in the PMG. Also, while my staff were informed that the correctness of all data entered for new pensioners was checked by supervisors, this was not evidenced by staff initialling or signing the relevant computer reports. Furthermore, the huge incidence of error in the dates of birth recorded for pensioners would suggest that there was poor checking of the data input. It was also noted that no systematic checks were carried out by supervisors on changes made to master data.

Control Reports

Computer control reports are generated each pay day which give details of the numbers of pensioners paid and the totals in respect of gross payments, deductions and net pay. No reconciliations were being completed of the numbers of pensioners paid from one pay period to the next by reference to new pensioners set up and pensioners taken off due to notification of deaths. Also, the monetary totals in respect of gross and net payments and deductions were not being reviewed for reasonableness or compared from one pay period to the next. Such checks and reviews are important from the point of view of providing assurance on the correctness of the amounts paid and the validity of pensioners on the pension payroll.

Pension Declaration Forms

Under Statutory Instrument No. 134 of 1966, pensioners are obliged to complete an annual declaration confirming that they are alive and, in the case of spouses, that they have not remarried which would make them ineligible to continue to receive pensions. The Instrument also provides that the declaration should be witnessed by a person on the electoral register or other persons specified in the Instrument. The declarations must be completed on forms issued to the pensioners by the PMG.

In 1998, the forms were issued only to pensioners over the age of 80 years and in 1999 no Pension Declaration forms were issued. Declarations were issued to all pensioners in February 2000 and 1,000 pensioners had not replied by 31 July.

Overpayments of £75,314 involving five cases were made between May 1997 and May 2000 due to pensions continuing to be paid in respect of pensioners who had died. Statutory Declarations had issued in each of the cases involved on a number of occasions and had been returned duly signed

(albeit fraudulently). The cases were brought to light as a result of information received from the Gardaí and others.

It was also noted that the PMG accepts the verbal or written notification of deaths for the purpose of terminating pensions and does not systematically ensure that the death certificates are later obtained, either from the next of kin or from the General Registrar in the Department of Health and Children.

Date of birth records

An exercise completed during the audit indicated that the dates of birth were either incorrect or had not been entered on the computer system for some 4,500 pensioners out of a population of 14,183.

Spouses' Pensions

Increased Spouses' pensions are payable in respect of children up to the age of 16 years or up to the age of 22 years if they are attending full-time education.

The computer system did not flag children when they reached 16 or 22 years. This would be a useful control feature as it would identify the cessation dates of pensions and reduce the possibility of payments being made when they were no longer valid.

For eligible children over 16 years of age, a certificate is required from their school/college stating that they are in full time education for the relevant academic year. It was noted that Payable Orders were prepared even when education certificates had not been received and were withdrawn before issue and kept on the payee's file until the certificates were received. If no certificates were received the pensions would be ceased. However, there were cases where Payable Orders were issued in the summer months, where the children did not return to school after the holiday period resulting in overpayments, the recovery of which, in some cases, was not pursued.

Delays in the application of pension revisions

While there were usually no delays in adjusting the pensions of established civil servants, as they were processed by a computer programme, there seemed to be significant delays in adjusting the pensions of unestablished civil servants, as these had to be adjusted individually. Pension revisions in respect of retired unestablished civil servants of delegated departments are only awarded when the parent department notifies the Department of Finance. Until such notification is received, the pension remains at the level of the last notification received, irrespective of the time which has elapsed.

Audit tests carried out to estimate the delays in revising pensions, indicated that in excess of 2,000 unestablished pensioners had not had their pensions revised in over a year. In this context, I noted a decision by the Ombudsman that compensation, calculated by reference to increases in the Consumer Price Index, is payable to pensioners, where there have been delays of more than one year in the payment of pension entitlements. The compensation due to pensioners arising from the delays had not, up to the time of audit, been computed or paid by the PMG, as the review of 7,500 pension revisions where compensation might be payable had not been completed.

Documentation of Procedures

The PMG does not have a procedures manual which would facilitate staff in carrying out their duties and help to ensure that important controls and procedures are not overlooked.

Conclusions

- The maintenance of the accounting records was generally satisfactory and there was a high level of accuracy in relation to the computation of pension entitlements.
- Controls over the entry of data into the computer system and period-to-period processing controls need to be improved.
- The statutory requirement to obtain an annual declaration from all pensioners may need to be reviewed in the light of its apparent limited value as a control measure. The feasibility of having more cost effective procedures to verify that pensioners are alive should be explored.
- Death certificates should be automatically sought to verify the date of termination of pension.
- The high rate of error in relation to the recording of the dates of birth of pensioners in the computer system devalues the usefulness of computer generated reports on age profiles of pensioners which management might use in the course of carrying out reviews or in targeting particular age categories of pensioners for additional checks.
- Payment procedures should be tightened so that pensions in respect of children are automatically cancelled when they reach the relevant age limits.
- The PMG should put similar procedures in place for revising the pensions of unestablished civil servants as exist for established civil servants to eliminate unacceptable delays in revising such pensions.
- The individual revision of certain pensions and the subsequent checking in a large number of cases for possible entitlement to compensation are a wasteful use of resources.

The Accounting Officer made the following comments in relation to the report

- The Internal Audit unit (IAU) of the Department in a draft report on the Pensions Section of the PMG raised similar concerns to those raised by me. While that report has not been fully completed (it has yet to be discussed by the Internal Audit Committee) all of its recommendations are being addressed at present.
- Reports produced by the payments system should be the source against which all proposed changes to the payroll are checked. Staff Officers now run periodic reports as required between payroll runs and check the underlying documentation giving rise to the changes inputted by clerical staff against the reports produced. All reports are signed off and are spot checked by the Higher Executive Officer in the section.
- The following new control reports are being produced:
 - new pensions inputted in the pay period
 - restarted pensions in the pay period
 - pensions restarted and deleted from payroll in the pay period
 - pensions deleted from payroll in the pay period.

CMOD⁶ have recently completed sample reports and these have been approved by the PMG's Pensions Section. It is expected that these will be finalised and in place before the end of September 2000.

- It was accepted that the PMG should concentrate its resources on issuing statutory declarations to the high-risk categories of pensioner - those being abroad and those aged 80 years and over. This is dependent on the PMG database being updated with the missing dates of birth. There are in the region of 4,000 cases where there are no dates of birth. CMOD have written a computer programme which would identify these pensioners and generate a standard letter requesting their date of birth. This is being tested at present and it is expected that this letter will issue to the relevant pensioners shortly. The IAU also suggested that the PMG should improve upon their verification process by regular comparisons between the database of the General Register Office (*i.e.* where births, deaths and marriages are registered) when this is computerised and the live PMG database. Since 1998 the practice is that where a date of birth has been omitted from an application form it is returned for completion. All such forms have been returned with date of birth inserted.
- Since the computerisation of the General Register Office will not be completed for a further two years, it is suggested that in the meantime the PMG should run regular comparisons with the database of the Bereavement Grant section of the Department of Social, Community and Family Affairs. Preparatory work on these proposals has already begun in that
 - The proposal has been cleared by the Data Protection Commissioner's Office, subject to the manner in which the data is exchanged.
 - The Department has been in touch with the Department of Social, Community and Family Affairs to put the necessary administrative arrangements in place.
 - Arrangements are being finalised to issue a letter to any pensioners on the PMG's database who have not supplied an RSI number. (The comparisons between the databases of the PMG and the Bereavement Grant Section, or, in due course, the Register of Deaths, Births and Marriages, will be made on the basis of RSI numbers). The computer programme in question has been written and is being tested. It is expected that this letter will issue soon.
- CMOD are currently exploring the programming options, with a view to setting up the arrangement with the IT section in the Department of Social Community and Family Affairs who have responsibility for the Bereavement Grant Section in the next few months. However, it may be necessary to engage programmers from the private sector, as the programming is quite involved.
- The five fraud cases are being pursued. Two of the cases account for £71,281. One incident has been referred to the Gardaí for further investigation. The other will be pursued initially with particular sensitivity because of the manner in which it was brought to attention, so the Gardaí have not yet been involved.

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- As regards delays in application of pension revisions, over 7,500 of the 14,700 pensioners in payment in PMG Pensions are non-established. This category of pensioners have, traditionally, not been coded, i.e. classified by grade, but are on individual rates of pay. When established Civil Servants, be they serving or retired, get a pay increase, it is relatively simple to update the database to the new rate for the entire grade. However, for non-established Civil Servants, each pay increase must be calculated and entered on the system on an individual basis. There is frequently a long delay involved while the delegated Departments calculate the increased annual pension that each pensioner is entitled to. This is then supplied to PMG Pensions who must update their database and calculate what arrears are due.

PMG Pensions, and officers with suitable experience from elsewhere in the Department, have been working on arrears payments on overtime in the section on a constant basis for the past 9 months and have processed over 7,000 cases. It is likely that some compensation payments will have to be made to all the pensioners involved, based on the Consumer Price Index. The Accounting Officer accepted the conclusion about the excessive resources required for precise calculation of this compensation and will be proposing a more broad-brush methodology.

Discussions are ongoing between the IAU, PMG Pensions and two sections of Pay and Remuneration Division to identify a solution to this classification problem and to arrive at a situation whereby non-established pensioners will be updated in much the same manner as established pensioners.

- The difficulties with overpayment of children's pensions arose in part because of a manual system of administration whereby important information such as children's dates of birth were recorded on Index Cards (Kardex). The Unipay Section of CMOD have set up a programme which produces lists of live children's pension cases and the Kardex has been amended as necessary. A report listing all live cases and the relevant date of births has now been set up and this will be produced at every pay-run to check for cases where a child may be due to come off pension.
- It is recognised that the current manual record system used for children's pensions is far from ideal. From discussions with the Department of Defence in Galway, who pay army pensions on the COREPAY system, it was understood that the new system offers improved facilities in this regard. For example, the system will produce reminders automatically when a child reaches 16 and for each subsequent birthday. All children can be entered onto the system, instead of only two as on Unipay. The Department of Finance will document in detail what Defence have done on children's pensions and what preparation work will be necessary in the course of the upcoming installation of COREPAY in the Department.
- It is also recognised that there is a need to prepare a detailed procedure manual for all aspects of the work of PMG Pensions. Work on this has already begun, but progress has been slow, owing to a number of vacancies in PMG Pensions which put pressure on remaining staff. Those posts have recently been filled and it is intended that, after the upcoming shortages due to annual leave, work on the manual will resume and be completed. Particular close attention will be paid to this in the staff training for COREPAY.