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Executive summary

In this chapter, we report the results of the audits of the Workers' Compensation Board (WCB) and the Workers' Compensation Board Superannuation Plan (WCB Plan) for the year ended December 31, 2001.

We conclude that the financial statements for the WCB and the WCB plan are reliable. We also conclude that the WCB and the WCB Plan need to improve their practices to safeguard and control their assets and to comply with laws governing their activities.

For the WCB, we recommend that the WCB's monthly financial reports should provide explanations for the differences between the actual claim payments and the budgeted claim payments. The monthly financial reports should also reflect the impact of the claim payment experience on its estimated cost of existing claims that the WCB will have to pay in the future. In addition, the monthly financial reports should include projected results of its operations to the end of the year with the assumptions used to make the projection. The Board members of the WCB need this information to manage the WCB's operations.

In addition, we continue to recommend that the WCB should prepare an adequate disaster recovery plan and test that plan to ensure it works.

For the WCB Plan, we continue to recommend that the Plan should establish rules and procedures to ensure that all retired members receiving pensions who return to work for the Government, are paid in accordance with the laws.

Introduction

The Workers' Compensation Board (WCB) operates under *The Workers' Compensation Act, 1979* (Act). This Act establishes a mandatory no-fault compensation program for Saskatchewan workers. The members of the WCB (Board) administer this program and manage the WCB. The Board also hears and adjudicates claims on appeal.

The WCB plans to include its 2001 financial statements in its 2001 annual report. The WCB's financial statements report revenue of \$220 million, expenses of \$276 million, and net deficit of \$56 million. At December 31, 2001, the WCB had net assets of \$50 million.

The WCB sponsors the Workers' Compensation Board Superannuation Plan (WCB Plan). The WCB Plan is a defined benefit pension plan. The Workers' Compensation Superannuation Board (Superannuation Board) is responsible for administration of *The Workers' Compensation Board Superannuation Act*. The primary objective of the Superannuation Board is to provide superannuation allowances to the WCB's retired employees and to the dependants of deceased superannuates and employees. The Public Employees Benefits Agency, Department of Finance, provides day-to-day management of the WCB Plan.

In 2001, the WCB Plan received contributions of \$0.1 million from employees and provided superannuation allowances and refunds of \$0.9 million. At December 31, 2001, the WCB Plan held assets of \$31.1 million and had accrued pension benefits of \$22.5 million. The WCB Plan's financial statements will be included in its 2001 annual report.

Our audit conclusion and findings

We worked with the WCB's appointed auditor, Deloitte & Touche, to form our opinions on the WCB and the WCB Plan using the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditor* (to review a copy of this report, see our web site at <http://www.auditor.sk.ca/rrdhtml>).

Our Office and Deloitte & Touche formed the following opinions for the WCB:

In our opinion for the year ended December 31, 2001:

- ◆ **The financial statements of the WCB are reliable.**
- ◆ **The WCB had adequate rules and procedures to safeguard and control its assets and to comply with laws governing its activities except for the matters reported in this chapter.**
- ◆ **The WCB complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.**

Our Office and Deloitte & Touche formed the following opinions for the WCB Plan:

In our opinion for the year ended December 31, 2001:

- ◆ **The financial statements of the WCB Plan are reliable.**
- ◆ **The Superannuation Board had adequate rules and procedures to safeguard and control the Plan's assets and to comply with laws governing the Plan's activities except for the rules and procedures to ensure retired members who return to work for the Government are paid according to the law. In Deloitte & Touche's opinion, the Superannuation Board had adequate rules and procedures to safeguard and control the Plan's assets and to comply with laws governing the Plan's activities.**
- ◆ **The Superannuation Board complied with the laws governing the Plan's activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except for the pension payments to retired members who return to work for the Government. In Deloitte & Touche's opinion, the Superannuation Board complied with laws governing the Plan's activities.**

We did not rely on Deloitte & Touche's opinions on the Superannuation Board's rules and procedures to safeguard and control the Plan's assets and the Superannuation Board's compliance with the laws governing the

Plan's activities. *The Provincial Auditor Act* requires us to do additional work when we are unable to rely on the report of an appointed auditor. Our additional work consisted of reviewing relevant legislation and discussion with management.

Complete and accurate monthly reports needed

The WCB needs complete and accurate monthly financial reports to properly manage the WCB's operations. For example, the members of the WCB (Board) need this information to make sound operational decisions about the compensation programs and to set premium rates.

The Board receives a monthly financial information package. However, the package does not provide accurate information on the costs of existing claims that the WCB will have to pay in the future. Also, the monthly financial information package provided to the Board does not include projected results of the WCB's operations to the end of the year.

The WCB estimates the cost of existing claims that it will have to pay in the future at the beginning of the year. The WCB makes this estimate in consultation with its external actuary and based on the budgeted claim payments. Each month, the WCB records $\frac{1}{12}$ of its estimated cost of existing claims that it will have to pay in the future. The WCB does not regularly change its estimate of the cost of existing claims that it will have to pay in the future through out the year to take into account the actual claim payment experience. Also, the WCB does not regularly project the result of its operations to the end of the year. The WCB needs to assess regularly the impact of its actual claim payment experience and change its estimate of the costs of existing claims that it will have to pay in the future.

For example, in 2001, the WCB budgeted claim payments of \$137.1 million and estimated the cost of existing claims that it will have to pay in the future to be \$18.3 million. Actual claim payments and the cost of existing claims that the WCB will have to pay in the future were much greater than the budget. In June 2001, actual claim payments exceeded the budgeted claim payments by \$10.4 million and in November, the actual claim payments exceeded the budget claim payments by \$21.3 million. In December 2001, the total claim payments exceeded the budgeted claim payments by \$24.1 million. The monthly financial

information package did not explain the reasons for the differences between the actual claim payments and the budgeted claim payments. Nor did it assess the impact of actual claim payment experience on the estimated cost of existing claims that the WCB will have to pay in the future. In December, the WCB revised its estimate of the costs of existing claims that it will have to pay in the future to \$36 million from its original budget of \$18.3 million. At the year end, the WCB's external actuary estimated that based, in part, on the actual claim payments, the cost of existing claims that the WCB will have to pay in the future would be \$66 million.

Also, the WCB did not project the results of its operations to the end of the year until December 2001. On December 11, 2001, as part of its budgeting process for 2002, the WCB projected a net deficit for the year ended December 31, 2001. The projected deficit was significantly different than the actual deficit for the year. The audited financial statements show a net deficit of \$56 million for the year.

As a result, the monthly financial reports used by the Board for managing the WCB's operations were not adequate. When the Board does not have adequate information, there is a greater risk that it may make wrong decisions resulting in a loss of public confidence.

- 1. We recommend the WCB should establish rules and procedures to ensure that its monthly financial reports:**
 - ♦ include written explanations for differences between the actual claim payments and the budgeted claim payments;
 - ♦ reflect the impact of claim payment experience on the estimated cost of existing claims that the WCB will have to pay in the future; and
 - ♦ include projected results of its operation to the end of the year together with the key assumptions used to make the projection.

Disaster recovery plan needed

The WCB needs to prepare an adequate disaster recovery plan and test it to ensure it works. The Board needs to approve the disaster recovery plan.

The WCB is dependent upon its computer systems. To provide continuous services, the WCB must ensure its systems and data are available when needed.

Sound disaster recovery plans reduce the risks resulting from systems failing and business disruption. The WCB needs a written and tested disaster recovery plan to ensure the recovery of systems and data in case the WCB's electronic systems fail or if key service providers or suppliers' systems fail.

We also reported this matter in several of our previous Reports and most recently in our 2001 Spring Report.

In December 2001, the Standing Committee on Public Accounts considered this matter and concurred with our recommendation.

The WCB has prepared some policies relating to disaster recovery. However, the Board has not yet approved those policies. Nor has management tested or implemented those policies.

We continue to recommend that the WCB should prepare an adequate disaster recovery plan and test that plan to ensure it works.

Workers' Compensation Board Superannuation Plan

Retired members' pensions

The Superannuation Board needs information about retired members of the Plan who are receiving pensions and who have returned to work for the Government. The Superannuation Board needs this information to ensure it pays pensions in accordance with the law.

Section 27 of *The Superannuation (Supplementary Provisions) Act* sets out the requirements for stopping pensions when retired members

receiving a pension are re-employed. This Act allows retired members receiving a pension to work for the Government as temporary, casual, or provisional employees for a period not exceeding six months in a fiscal year without any reduction in their pensions. However, the Act requires that if a retired member receiving a pension works for the Government more than six months in a fiscal year, the member's pension should be stopped. The Act also requires that, if a retired member receiving a pension is re-hired by the Government as a permanent employee, the member's pension should be stopped from the day the member starts work.

The Superannuation Board does not have adequate rules and procedures to know if retired members are working for the Government. The Superannuation Board relies on retired members receiving pensions to notify the Plan when they recommence employment with the Government. As a result, the Superannuation Board cannot ensure all pensions paid comply with the law. Also, because the Superannuation Board does not have adequate rules and procedures to know if retired members are working for the Government, we cannot determine if the Superannuation Board complied with section 27 of the Act.

We reported this matter in our 2001 Spring Report.

In November 2001, the Standing Committee on Public Accounts considered this matter and concurred with our recommendation.

We continue to recommend that the Plan should establish rules and procedures to ensure that all retired members receiving a pension, who have returned to work for the Government, are paid in accordance with the Act. Alternatively, the Plan should seek changes to the Act.

Management told us it plans to seek changes to the Act.