Finance

6

Main points

The General Revenue Fund's (GRF) 2004 financial statements are not reliable because Finance used accounting practices that are not in accordance with Canadian generally accepted accounting principles for the public sector. They do not record the GRF's pension liability of $4 billion, and understate the year's pension costs by $47 million. The statements also inappropriately record a $211 million transfer from the Fiscal Stabilization Fund as revenue and $32 million as loans receivable from Crown corporations.

We have significant concerns with the GRF financial statements because the Government uses the GRF's annual surplus or deficit as one of its key performance indicators. In March 2004, the Government presented a summary financial plan for the entire Government as part of the 2004-05 budget and performance summary. We encourage the Government to report on its performance using this summary financial plan together with its summary financial statements, rather than using the GRF statements.

Finance is replacing its financial and human resources computer system. Part of the new system is a new cash management module. Finance installed and operated this module without enough testing or documenting the procedures for reconciling the main bank account. As a result, Finance was unable to reconcile the main bank account's recorded bank balance to bank records for a year.

Introduction

The Department of Finance (Finance) helps the Government and the Legislative Assembly manage and account for public money. It controls spending from the General Revenue Fund (GRF) and ensures that the GRF receives all revenue due to it. In addition, Finance prepares the Government's summary financial statements.

Finance:

- prepares the annual Budget Address, Estimates, and Public Accounts;
- arranges government financing, banking, investing, and borrowing;
- provides policy and financial analysis to Treasury Board and Executive Council;
- develops tax policy alternatives;
- administers various tax, grant, and refund programs;
- provides economic forecasting and economic, social, and statistical data;
- administers public sector pension and benefit plans; and
- leads the Government's accountability project.

In 2004, Finance spent $1.1 billion and collected revenue of $5.3 billion. Revenue includes $297 million of debt costs recovered from Crown agencies.

Special purpose funds and Crown agencies

Finance is responsible for the following special purpose funds and Crown agencies.

Year-end March 31

General Revenue Fund (GRF)
Fiscal Stabilization Fund[1]
Public Employees Benefits Agency Revolving Fund
Public Employees Pension Plan
Public Service Superannuation Plan
Saskatchewan Pension Annuity Fund

Year-end December 31

Extended Health Care Plan
Extended Health Care Plan for Certain Other Employees
Extended Health Care Plan for Retired Employees
Extended Health Care Plan for Certain Other Retired Employees
Municipal Employees' Pension Commission
Municipal Financing Corporation of Saskatchewan
Public Employees Deferred Salary Leave Fund
Public Employees Disability Income Fund
Public Employees Dental Fund
Public Employees Group Life Insurance Fund
Saskatchewan Pension Plan
SaskPen Properties Ltd.[2]

[1] Finance does not prepare financial statements for this Fund. As required by *The Fiscal Stabilization Fund Act*, a schedule of transfers and accumulated balance appears in Public Accounts Volume 1.
[2] The Government denied us access to this Crown agency; therefore, we could not audit the agency (see Chapter 8 of our 1999 Fall Report – Volume 2 for further discussion of the matter).

Financial overview

The following is a list of Finance's major programs and spending for the year ended March 31, 2004. The financial information is from the *Estimates 2003-2004, Public Accounts 2003-2004: Volume 1: Main Financial Statements* (see http://www.gov.sk.ca/finance/paccts) and *Saskatchewan Finance's Annual Report 2003-2004*.

	Original Estimates	Actual
	(in millions of dollars)	
Interest-GRF Debt	$ 650	$ 603
Interest-Crown Corporation Debt	298	297
Total Interest on Debt	948	900
Pensions and Benefits	200	197
Administration	40	39
	$ 1,188	$ 1,136

The following is a list of Finance's major revenue sources.

	Original Estimates	Actual
	(in millions of dollars)	
Individual Income Tax	$ 1,275	$ 1,246
Interest-Crown Corporations	298	297
Sales Tax	852	855
Transfers-Canada Health and Social Transfer	688	751
Transfers-Equalization	172	41
Fuel Taxes	350	357
Corporation Taxes	704	682
Tobacco Taxes	167	177
Income from Government Entities	591	606
Motor Vehicle Fees	122	119
Other	126	221
	$ 5,345	$ 5,352

Key risks

We identified the key risks Finance must manage well to be successful. It must:

- give Treasury Board accurate and useful information to enable it to develop, manage, and evaluate the Government's fiscal plan;
- publish useful planning and performance reports;
- manage the Government's debt;
- manage investments;
- collect revenues due to Finance;
- manage several government pension and benefit plans; and
- ensure designated government entities comply with Treasury Board's directives.

Our audit conclusions and findings

This chapter contains our audit conclusions and findings on Finance, its special purpose funds, and its Crown agencies for the year ended March 31, 2004.

In our opinion:

- **the Government's summary financial statements, included in the Public Accounts 2003-2004 Volume 1 are reliable;**
- **the financial statements for the special purpose funds and Crown agencies listed above that we audited are reliable except for the GRF;**
- **the GRF's financial statements included in the Public Accounts 2003-2004 Volume 1 are reliable except that the transfer to the Fiscal Stabilization Fund, loans receivable**

from Crown corporations, and all pension costs are not properly recorded;

- **Finance and its Crown agencies that we audited had adequate rules and procedures to safeguard public resources except for the matters reported in this chapter; and**

- **Finance and its Crown agencies that we audited complied with authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing and investing except where we report otherwise in this chapter.**

In addition, the law requires us to report when a special warrant approved the payment of public money. For the year ended March 31, 2004, the Government approved the spending of $207.4 million by special warrant. It later included these special warrants in an appropriation act.

GRF financial statements not reliable

Our auditor's report on the GRF's financial statements for the year ended March 31, 2004 warns readers that the financial statements do not include all of the Government's financial activities. Therefore, readers should not use the GRF's statements to understand and assess the Government's overall performance. The appropriate financial statements to use for that purpose are the Government's summary financial statements.

In addition, our auditor's report on the GRF's financial statements for the year ended March 31, 2004 includes three reservations. The financial statements are not reliable because they do not properly record transfers to the Fiscal Stabilization Fund, loans receivable from Crown corporations, and pension costs.

The combined effects of these reservations are as follows:

- the transfer from the Fiscal Stabilization Fund of $211 million overstates revenue by $211 million;
- transfers to Crown corporations, improperly recorded as loans, understate expenditures by $12 million;

- pension expenditures are understated by $47 million; and
- liabilities are understated by $4.0 billion, assets by $0.3 billion, and the accumulated deficit by $3.7 billion.

As well, the financial information reported in Volume 2 of the Public Accounts 2003-04 and some department annual reports is not reliable because it is based on the information reported in the GRF financial statements.

For the reservation related to transfers to Crown corporations improperly recorded as loans, Saskatchewan Agriculture, Food, and Rural Revitalization's annual report 2003-2004 understates crop insurance expenditures by $12 million.

For the reservation related to pension expenditures, Saskatchewan Learning's annual report 2003-2004 overstates expenditures by $11 million for teachers' pensions and benefits. Saskatchewan Finance's annual report 2003-2004 understates expenditures by $58 million for pension plans managed by the Public Service Superannuation Board.

Fiscal Stabilization Fund reservation

The Government records transactions between the GRF and the Fiscal Stabilization Fund (Fund) as GRF revenue or expenditure. The substance of the transactions between the GRF and the Fund is that amounts owed by the GRF to the Fund must be repaid to the GRF by the Fund. Canadian generally accepted accounting principles (GAAP) for the public sector do not allow the GRF to record changes in the amounts due to the Fund as revenues or expenditures of the GRF. The Government acknowledges that it does not follow GAAP for transfers to and from the Fund.

The GRF's 2004 financial statements show a liability of $366 million owed to the Fund, a decrease of $211 million from 2003. The GRF records this decrease as revenue. It is not appropriate to record the $211 million as revenue because it is not revenue earned by the GRF. Instead of recording revenue of $211 million, the GRF should show an asset of $366 million owed from the Fund.

The effects of not properly reporting this asset are as follows:

- ♦ revenue is overstated by $211 million;
- ♦ surplus for the year is overstated by $211 million;
- ♦ assets are understated by $366 million; and
- ♦ accumulated deficit is overstated by $366 million.

The Legislative Assembly created the Fund in April 2000. The Fund's stated purpose is to stabilize the fiscal position of the Government from year to year. However, making transfers from one fund to another, and back again, has no effect on the Government's overall annual surplus (deficit) and accumulated deficit. The Government's total accumulated deficit of $9.3 billion is unaffected. Therefore, the only consequence of recording these transactions in the GRF's financial statements is that the actual amount of the GRF's surplus changes to another amount chosen by the Government. This is worrisome because the Government uses the amount of the GRF's annual surplus or deficit as one of its key performance indicators.

In previous years, we recommended that the GRF's financial statements should record transfers to the Fund as an asset, not as an expenditure and any transfers back to the GRF as a reduction of that asset, not as revenue.

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

We continue to recommend that the General Revenue Fund's financial statements record transfers in accordance with Canadian generally accepted accounting principles for the public sector.

Loans receivable reservation

The GRF's financial assets include loans receivable from Crown corporations of $3.6 billion. In one case, the Crown corporation can only repay the loans due to the GRF if the Government gives it the money from the GRF to do so. GAAP for the public sector requires the Government to record such transactions as expenditures and not as loans receivable.

At March 31, 2003, loans receivable from Crown corporations included $58 million that corporations could not repay unless the Government gave them the money to do so. The loans were from the Education Infrastructure Financing Corporation (EIFC) and the Saskatchewan Crop Insurance Corporation (SCIC).

At March 31, 2004, the GRF financial statements correctly record the cost of education capital projects as expenditures (previously recorded as loans due from EIFC). However, loans receivable still include an amount due from Saskatchewan Crop Insurance Corporation that it cannot repay unless the Government gives it the money to do so. The effect of not properly recording this transaction is as follows:

- expenditures are understated by $12 million;
- surplus for the year is overstated by $12 million;
- loans receivable are overstated by $32 million; and
- accumulated deficit is understated by $32 million.

In our 2003 Report-Volume 3, we recommended that the Government account for loans to Crown corporations in accordance with Canadian GAAP for the public sector.

In September 2004, PAC considered this matter, agreed with our recommendation, and notes that, “the loans to Education Infrastructure Financing Corporation have now been written off and that the Standing Committee on Public Accounts believes that the Saskatchewan Crop Insurance Programme should continue to operate as it currently does.”

We continue to recommend that the Government account for loans to Crown corporations in accordance with Canadian GAAP for the public sector.

Pension costs reservation

Canadian GAAP for the public sector requires that pension liabilities be recorded in the financial statements.

The GRF is responsible for the liabilities of several pension funds, but it does not record these liabilities in the GRF’s financial statements. Therefore, the Assembly and the public are unable to properly assess pension costs because the financial statements do not include the GRF's total pension costs for the year or the unfunded pension liability. The financial statements only include the amounts the Government actually paid retired members or contributed to a pension fund that year. The Government acknowledges that it does not follow GAAP for pension costs and liabilities.

The effects of not properly recording pension costs are as follows:

- pension expenditures are understated by $47 million;
- surplus for the year is overstated by $47 million; and
- pension liabilities and accumulated deficit are understated by $4 billion.

In previous years, we recommended that the Government account for pension costs in the GRF's financial statements in accordance with Canadian GAAP for the public sector.

In February 2002, PAC considered this matter and disagreed with our recommendation.

We note that Manitoba is the only other provincial government in Canada that publishes financial statements that do not follow Canadian GAAP for the public sector for pensions.

We continue to recommend that the General Revenue Fund's financial statements record pension costs in accordance with Canadian GAAP for the public sector.

MIDAS cash management module

Finance has a multi-year plan to replace the current financial and human resources computer system used by all departments with Enterprise Resource Planning[3] software called Oracle Financials. Finance plans to implement Oracle Financials in a number of phases. Finance calls the new system MIDAS ("Multi-Informational Database Applications"). All departments will use MIDAS.

[3] Enterprise Resource Planning software integrates a large number of functions across an entire organization into one piece of software. This allows all of the various units within the organization (in this case departments and branches) to more easily share information and communicate with each other.

Finance implemented the first phase April 1, 2003. It included modules for the general ledger, accounts payable, revenue recording, and cash management.

The cash management module presented significant problems. Finance installed and operated this module without enough testing or documenting the procedures for reconciling the main bank account.

As a result, Finance was unable to reconcile the main bank account's recorded bank balance to bank records for a year. Finance finalized the April 2003 bank reconciliation in March 2004, along with reconciliations for May through August of 2003. Finance finalized the reconciliations for the remaining months in April 2004.

Timely bank reconciliations help ensure that the bank makes only authorized withdrawals from the bank account and that the bank puts all deposits into the bank account. Also, timely bank reconciliations help to ensure accurate financial reports. MIDAS produces the monthly financial reports for all departments. If the reports are not accurate, the departments may not have the information they need to make good decisions.

To mitigate the risk of any loss, Finance performed the following procedures:

- daily reconciliation of cash receipts total to the bank deposit; and
- daily comparison of cashed cheque listing from the bank to cheques issued listing from MIDAS. Finance follows up any differences immediately.

We note that Finance completed the documentation of procedures for reconciling the GRF's main bank account in June 2004. We also note that Finance completed the April 2004 bank reconciliation in June 2004 and reconciliations are now current.

1. We recommend that Finance reconcile its recorded bank balance to the bank's records promptly.

Prior years' recommendation

Annual pension costs not included in Estimates

In previous reports, we reported the Assembly and the public are unable to assess pension costs properly because the Estimates do not include the GRF's estimated total pension costs for the year. The Estimates only include the amounts the Government expects to pay retired members or contribute to a pension fund that year.

The effects of not including the GRF's total pension costs in the Estimates for the year ended March 31, 2004 are as follows:

- budgeted operating expenditures of $5.9 billion are understated by $55.7 million;
- the GRF's budgeted surplus of $59.3 million is overstated by $55.7 million; and
- the budgeted accumulated deficit of $5.4 billion is understated by $4.0 billion.

In previous years, we recommended that Finance include the GRF's total pension costs for the year in the Estimates.

In February 2002, PAC considered this matter and disagreed with our recommendation.

This matter is important because the Government uses the GRF's budgeted surplus or deficit as one of its key performance indicators. If the budgeted surplus or deficit does not include the total estimated pension costs, it is difficult for the Assembly and the public to assess the Government's performance. As well, the Assembly makes decisions based on the belief the budget is balanced. The Assembly may make different decisions if the budget included the correct amount of pension costs for the year.

In March 2004, the Government presented a summary financial plan for the entire Government as part of the 2004-05 Budget and Performance Summary. We are pleased to note the summary financial plan includes the Government's total estimated pension costs.

Public Employees Benefits Agency

The Financial Administration Act, 1993 (Act) established the Public Employees Benefits Agency (PEBA) to administer certain pension plans and benefit programs.

The Act also established the Public Employees Benefits Agency Revolving Fund to account for PEBA's administration costs. PEBA allocates the administrative costs to the various pension plans and benefit programs it administers.

For the year ended March 31, 2004, PEBA had revenue and expenses of $6.6 million and held assets of $2.3 million.

Compliance with the law needed

The Act does not allow PEBA to retain money received from health care plans not designated by Cabinet as benefit programs.

The Act allows PEBA to manage benefit programs designated by Cabinet. The Act also allows PEBA to provide management assistance to benefit plans it does not administer.

PEBA arranged with certain employers to pay health care plan premiums on their behalf. PEBA received money from the employers and paid the premiums. The premiums were for health care plans Cabinet has not designated as benefit programs. PEBA did not manage these health care plans i.e. did not negotiate health care insurance contracts or administer employees' claims.

At year-end, money received from these employers exceeded premiums paid to the insurers by $220,000. The surplus remained in PEBA's bank account. Since Cabinet had not designated these plans as benefit programs, PEBA had no authority to retain the surplus.

2. We recommend that the Public Employees Benefit Agency return the surpluses to the employers, or have the plans designated as benefit programs by Cabinet as required by *The Financial Administration Act, 1993*.

Saskatchewan Pension Annuity Fund

The Saskatchewan Pension Annuity Fund Act established the Saskatchewan Pension Annuity Fund (Fund). The Public Employees Pension Board (Board) administers the Fund. PEBA provides day-to-day administration for the Fund.

The Fund provides retiring members of the Public Employees Pension Plan (Plan) an alternative to purchasing an annuity from the private sector. On retirement, Plan members may purchase an annuity from the Fund or from a private sector company. Those electing to receive an annuity from the Fund transfer their accumulated contributions and investment income from the Plan to the Fund at retirement.

In 2004, the Fund had revenue of $20.2 million (including $12 million in transfers from the Plan), expenses of $20.3 million with a net loss of $.1 million. At March 31, 2004, the Fund had assets and liabilities of $126.5 million.

Board needs to monitor cash flows

The Board needs to monitor the Fund's cash needs to ensure it can pay annuities when due.

The Board provides annuities to those members of the Plan who chose to buy annuities from the Fund. The Board uses money transferred from the Plan to buy fixed term-investments and uses the cash received from these investments to make regular payments to annuitants.

Sometimes, cash flows from the investments do not coincide with the timing of the annuity payments. To ensure it has cash available to make payments, the Board needs to forecast and monitor cash inflows and cash outflows. If the projected cash outflows exceed its projected cash inflows, the Board can direct management how best to deal with the expected cash shortfall. To deal with such shortfalls, *The Financial Administration Act, 1993* allows the Board to establish a line of credit with a bank. The Board has established a line of credit with a bank. The Board, however, does not forecast and monitor cash flow needs. Nor has it established guidelines for staff on how to manage any cash shortfall.

Twice during the year, the Board did not have enough cash to make payments from the Fund. Because the Board had not established guidelines on how to manage cash shortfalls, staff borrowed money from the Plan without informing the Board or senior management. *The Saskatchewan Pension Annuity Fund Act* does not allow the Board to borrow money from the Plan. Later in the year, the Board repaid the money, including interest, to the Plan.

3. We recommend that the Public Employees Pension Board monitor regularly the Saskatchewan Pension Annuity Fund's cash flow.

4. We recommend that the Public Employees Pension Board use the borrowing authorized under *The Financial Administration Act, 1993* for the needs of the Saskatchewan Pension Annuity Fund.

The Public Service Superannuation Board

The Public Service Superannuation Board (Board) is responsible for the administration of *The Public Service Superannuation Act* and other relevant laws. The Board's primary objective is to provide pensions to employees who retire and to dependants of deceased pensioners and employees in accordance with the law.

The Board manages the Public Service Superannuation Plan (Plan), which consists of the Public Service Superannuation Fund, the Anti-Tuberculosis League Employees Superannuation Fund, and the Saskatchewan Transportation Company Employees Superannuation Fund. The Plan is a defined benefit pension plan.

In 2003-2004, the Plan received contributions of $5.1 million from employees and $92.9 million from the GRF. At March 31, 2004, the Plan held assets of $18.0 million and had liabilities of $1,609.6 million.

Retired members' pensions

The Board needs information about retired members of the Plan who are receiving a pension and have returned to work for the Government. The

Board needs this information to ensure it pays pensions in accordance with the law.

Requirements for stopping the pensions of retired members who return to work for the Government are set out in section 27 of *The Superannuation (Supplementary Provisions) Act* (Act). The Act allows retired members to work as temporary, casual, or provisional employees for up to six months per year without a reduction in their pension. However, the Act requires the Board to stop the pension of a retired member who works for the Government for more than six months in a year. The Act also requires the Board to stop the pension of a retired member that the Government re-hires as a permanent employee when that member starts work.

The Board does not know if retired members are working for the Government. The Board relies on retired members notifying the Board upon re-employment with the Government. As a result, the Board cannot ensure that all pensions paid comply with the law. Accordingly, we cannot determine if the Board complied with section 27 of the Act.

We reported this matter in our 2003 Report – Volume 3, our 2001 Spring Report, and 2002 Fall Report. In November 2001, PAC considered this matter and agreed with our recommendation.

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

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