

Workers' Compensation Board



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Main points

This chapter reports the results of our audits of the Workers’ Compensation Board (WCB) and the Workers’ Compensation Board Superannuation Plan (WCB Plan).

We report that the WCB has addressed our past recommendations to administer injured workers’ claims except for receiving timely injury reports from employers, and approving an adequate plan for its internal auditor. The WCB continues to make progress to address these issues. The President and employees directly reporting to the President did not file their employment contracts with the Clerk of the Executive Council as required under *The Crown Employment Contracts Act*.

We also report that both the WCB and the WCB Plan did not verify that all of their investments comply with the laws and their investment objectives.

The WCB Plan has not acted on our 2003 recommendations to improve its governance processes. Effective January 1, 2005, the Workers’ Compensation Board is responsible to administer the WCB Plan.

Introduction

The Saskatchewan Workers’ Compensation Board (WCB) operates under *The Workers’ Compensation Act, 1979*. This Act establishes a mandatory no-fault compensation program for Saskatchewan workers. The members of the WCB Board are responsible for the administration of the Act.

The WCB included its 2004 financial statements in its 2004 annual report. Those financial statements report revenue of \$256.7 million, expenses of \$245.0 million, and operating surplus of \$11.7 million. At December 31, 2004, the WCB had investments of \$907.0 million and net assets of \$52.7 million.

Our audit conclusion and findings

Cabinet appointed Deloitte & Touche LLP (Deloitte), Chartered Accountants, as the WCB’s auditor. Our Office worked with Deloitte using the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* (to view a copy of this report, see our web site at <http://www.auditor.sk.ca/rrd.html/>). Our Office and Deloitte formed the following opinions.

In our opinion for the year ended December 31, 2004

- ◆ **the WCB’s financial statements are reliable**
- ◆ **the WCB had adequate rules and procedures to safeguard public resources except for the matters reported below**
- ◆ **the WCB complied with the authorities governing its activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing except for the matters reported below**

Verification of investment managers’ compliance reports

The WCB needs to strengthen its rules and procedures to ensure that its investments comply with the law and its investment objectives.

The Workers’ Compensation Board Act, 1979, sets out the investment rules that the WCB must follow. The WCB may contract with investment managers to make investment decisions. However, the WCB is responsible to ensure that all its investments comply with the law and its investment objectives. The WCB could do this by verifying the investment managers’ compliance reports. Alternatively, the WCB could receive periodic independent assurance on the adequacy of the systems and practices the investment managers use.

The WCB has hired investment managers to make investment decisions for the WCB. The WCB requires the investment managers to ensure that investments comply with the law and provide compliance reports. The WCB receives quarterly investment compliance reports from the investment managers. The WCB, however, does not adequately verify the investment managers’ compliance reports.

The WCB has hired an asset consultant. The asset consultant reviews the performance of the WCB’s investments and the investment managers. With the help of its asset consultant, the WCB verifies some parts of the investment managers’ compliance reports (e.g., investment mix). The WCB does not verify that the investment managers complied with all the laws and the WCB’s investment objectives (e.g., quality of investments, quantity of stock held in individual companies) nor does the WCB receive independent assurance on the adequacy of the processes the investment managers use. As a result, we cannot determine if all of the WCB’s investments complied with the law and its established investment objectives.

- 1. We recommend that the Workers’ Compensation Board establish policies and procedures to ensure that all of its investments comply with the law and its investment objectives.**

On April 18, 2005, the WCB approved getting assurance that the investment managers have complied with the law and the WCB’s investment objectives.

Crown employment contracts

The WCB’s employees have not complied with *The Crown Employment Contracts Act* (Act).

The Act applies to all employees other than the employees covered by a collective bargaining agreement and the employees appointed under an Order in Council.

The Act requires that the President and each employee reporting directly to the President file a copy of their employment contracts with the Clerk of the Executive Council, who then makes them available to the public. The President of the WCB and employees directly reporting to the President did not file their employment contracts with Clerk of the Executive Council. Accordingly, the WCB’s employees did not comply with *The Crown Employment Contracts Act*.

The WCB does not have a written employment contract with its President. Nor does the President have written contracts with the employees reporting directly to him.

The WCB told us that the employees did not file the employment contracts with the Clerk of the Executive Council because in 1993 the Clerk advised that filing of contracts was not required if they did not have a written contract of employment.

2. We recommend that the Workers’ Compensation Board and the employees reporting directly to the President file employment contracts with the Clerk of the Executive Council as required by *The Crown Employment Contracts Act*.

On May 3, 2005, the Chair told us that the WCB now acknowledges the applicability of the Act and intends to negotiate a formal contract with the President and file that contract with the Clerk of the Executive Council. The Board will also ask the President to do the same for the employees that report directly to him.

Processing injured workers' claims

In our 2004 Report – Volume 1, we recommended that the WCB:

- ◆ receive injury reports from employers promptly
- ◆ identify claims where recovery may be possible from other parties and effectively pursue such claims
- ◆ ensure its actuaries receive and use accurate data to calculate the expected benefits owing to injured workers
- ◆ follow its processes to calculate the expected costs or savings for all policy changes

The Standing Committee on Public Accounts (PAC) considered these matters in June 2004 and agreed with our recommendations.

We are pleased that the WCB has addressed our recommendations except for receiving injury reports from employers promptly. During PAC's meeting on June 29, 2004, the WCB told the Committee that it planned to deal with the issue by seeking legislative changes. The WCB has not yet done so. Nor has it established a process to ensure it receives timely injury reports from employers. Slow reporting delays the payment of benefits to injured workers. This results in unnecessary hardship and discontent.

We continue to recommend the WCB receive injury reports from employers promptly.

Management told us that the WCB has now established a process to identify employers who report injuries late and begun to improve its communications with employers about the importance of prompt reporting. Management also told us that the WCB has hired a special prosecutor to help deal with employers that continue to report injuries late.

The Board Chair told us that the WCB has requested legislative changes to enable it to levy administrative fines for late reporting.

Maintaining quality control processes

In 2004, we also examined the WCB's quality control processes for administering short-term and long-term claims. In our 2004 Report –

Volume 1, we said the WCB’s quality controls processes were adequate except that it needed to set out guidelines for documenting its quality control work. Setting out guidelines for documenting quality control work would help ensure that employees involved in quality control document the results of their work in a consistent manner. We also recommended that the WCB monitor the quality of administration of the long-term claims assigned to case management teams.

PAC considered this matter in June 2004 and agreed with our recommendations.

The WCB has now established written guidelines for documenting the quality control work. In addition, in 2005, the WCB began monitoring the quality of management of the long-term claims.

Adequate information for the Board and senior management

In our 2004 Report – Volume 1, we said the WCB provides senior management and the Board with adequate information except that the Board:

- ◆ had not formally defined its reporting needs to oversee the administration of claims
- ◆ did not receive and approve an adequate work plan for the internal auditor

PAC considered this matter in June 2004 and agreed with our recommendations.

While the Board has not formally defined its reporting needs to oversee the administration of claims, management provides consistent reports to the Board regularly. Management only makes changes to those reports when Board members suggest changes to better understand the WCB’s performance.

The internal auditor’s work plan that the Board receives and approves continues to be inadequate. The internal auditor’s plan does not include the WCB’s business and operating risks. Also, it does not show how the internal auditor’s work would help reduce those risks. The Board should also ensure that the internal auditor carries out the approved plan.

During 2004, the Board received reports from its internal auditor setting out the progress towards the completion of the work plan the Board had approved.

We continue to recommend that the Board receive and approve an adequate work plan for the internal auditor.

Management told us that the WCB plans to complete a risk management strategy in 2005 and that strategy will be used to prepare the internal auditor’s plan.

Workers’ Compensation Board Superannuation Plan

The WCB sponsors the Workers’ Compensation Board Superannuation Plan (WCB Plan). The WCB Plan is a defined benefit pension plan (closed to members in 1978).

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 pensions to the WCB’s retired employees and 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 2004, the WCB Plan received contributions of \$0.1 million from employees and provided pensions and refunds of \$1.0 million. At December 31, 2004, the WCB Plan held assets of \$32.7 million including investments of \$32.5 million, and owed accrued pension benefits of \$26.7 million. The WCB Plan’s financial statements are included in its 2004 annual report.

Effective January 1, 2005 the Workers’ Compensation Board is responsible for the administration of the WCB Plan.

Our audit conclusion and findings

Cabinet appointed Deloitte & Touche LLP (Deloitte), Chartered Accountants, the WCB Plan’s auditor. Our Office worked with Deloitte using the framework recommended by the *Report of the Task Force on*

Roles, Responsibilities and Duties of Auditors. Our Office and Deloitte formed the following opinions.

In our opinion for the year ended December 31, 2004:

- ◆ **the WCB Plan’s financial statements are reliable**
- ◆ **the WCB Plan had adequate rules and procedures to safeguard public resources except for the matters reported below**
- ◆ **the WCB Plan complied with the authorities governing its activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing except for the matters reported below**

Verification of investment managers’ compliance reports

The WCB Plan needs adequate rules and procedures to ensure its’ investments comply with the law and the Plan’s investment objectives.

The Pension Benefits Act, 1992 sets out the investment requirements that pension plans must follow. Pension plans may contract with investment managers to make investment decisions. However, management is responsible to ensure that all investments comply with the law and its investment objectives. Management could do this by verifying the investment managers’ compliance reports. Alternatively, management could receive periodic independent assurance on the adequacy of the systems and practices the investment managers use.

The Plan has hired an investment manager to make investment decisions on behalf of the Plan. The Plan requires the investment manager to ensure that investments comply with the law and to provide compliance reports to management. Management receives quarterly investment compliance reports from the investment manager.

The Plan has hired an asset consultant. The asset consultant reviews the performance of the Plan’s investments and the investment manager. With the help of its asset consultant, management verifies some parts of the investment manager’s compliance reports (e.g., investment mix).

Management, however, does not verify that the investment manager has complied with all laws and the Plan's investment objectives (e.g., quality of investments, quantity of stock held in individual companies). Nor does the Plan receive independent assurance on the adequacy of the processes the investment manager uses. As a result, we cannot determine if all of the Plan's investments complied with the law and the Plan's investment objectives.

- 3. We recommend that the Workers' Compensation Board Superannuation Plan establish policies and procedures to ensure that all investments held by the Plan comply with the law and its investment objectives.**

Governance processes

In late 2002, we studied the governance processes used by the Government's pension plans including the WCB Plan. In our 2003 Report – Volume 1, we reported that the Government's pension plans need to improve their governance processes and made six recommendations.

We recommended that the Government's pension plan boards:

- ◆ develop and implement strategic plans that include the goals and objectives of the plan, a summary of the risks faced by the plan and its members, and the key strategies to manage those risks
- ◆ clearly set out the specific responsibilities of the board including clear delegation of authority, and an education plan for board members and management
- ◆ define and communicate the financial and operational information that the boards need to oversee the plans
- ◆ establish an appropriate code of conduct for board members, management, and employees of the plans
- ◆ develop and implement written communication plans
- ◆ establish policies for periodic governance self assessment

PAC considered these matters in September 2004 and agreed with our recommendations.

During 2004, the WCB Plan made no progress towards addressing our recommendations.

Effective January 1, 2005, the Workers’ Compensation Board is responsible to administer the WCB Plan.

Retiring members’ pensions

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

Section 27 of *The Superannuation (Supplementary Provisions) Act* (Act) sets out the requirements for stopping pensions when retired members receiving a pension are reemployed. The Act allows retired members receiving pensions 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 must be stopped. The Act also requires that, if a member receiving a pension is rehired by the Government as a permanent employee, the member’s pension should be stopped from the day the member starts work.

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

We reported this matter in our earlier Reports. In November 2001, PAC considered this matter and agreed with our recommendation.

We continue to recommend that the Plan establish processes 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.

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